

October 18, 2011

**To: Commissioners Courts of Collin, Dallas, Denton and Tarrant Counties and
NTTA Board Members and Staff**

Subject: Independent Financial and Performance Review of the NTTA

Over the past three and a half months, Alvarez & Marsal and our partner, Animato, have conducted a review to evaluate the NTTA's financial, operating and administrative functions, assess whether the NTTA's goals and objectives are being achieved and the stakeholder concerns or needs are being addressed, and make recommendations for improvement. In executing the assessment, we conducted:

- Numerous interviews with current and former NTTA staff, Board members, consultants, and outside experts
- An agency-wide employee survey
- An extensive document review, covering all aspects of NTTA's operations
- A review of best practices employed by other, similar entities

Our approach focused on the current operating practices at the NTTA and changes underway, not an historical analysis. We received broad cooperation as there clearly is a strong desire from all stakeholders for the NTTA to succeed.

To sum up the essence of our findings, the NTTA has undergone significant change over the past five years, and while there have been numerous accomplishments, many business practices have not matured sufficiently to support the growth of the current operation. The recommendations we provide can be implemented by the NTTA if the Board and senior management are willing to commit themselves to making the necessary reforms and seeing them through. In fact, improvements are underway that give us reason to be optimistic that, with some guidance and support, the NTTA can move to an improved governance model.

Based on our assessment, the issues facing the NTTA today are repairable. Our review did not find malfeasance or impropriety, but rather governance and operational practices that cause frustration, poor morale, and distrust among stakeholders. For example:

- Some Board members and members of the staff either do not clearly understand the NTTA's priorities going forward or do not share those priorities.
- Roles and responsibilities of the Board, staff and consultants, and the way in which they should interact with each other, are not clearly defined or understood.
- Communication among the Board, Executive Director and staff is weak, resulting in poor understanding of the will of the Board and key issues facing the agency.
- The Board lacks depth in certain skills that would benefit the organization, such as corporate finance, and its membership does not reflect the diverse composition of the community.
- The perception of conflicts of interest is widely held. While we did not see evidence of illegality or impropriety, the appearance of conflicts creates public and internal distrust. The public confidence that an entity such as NTTA requires has been undermined by this perception.

- The Executive Director performance management and review process has many gaps.
- Morale among the staff is low for a variety of reasons including: elimination of incentive pay last year, lack of agreement on priorities, continual revisiting of issues by the Board, a perception that the executive management of the NTTA and the Board are out of touch, and a general fear that employees who disagree with leadership or the consultants could “get in trouble.”
- The 2010 major consultant procurement process was flawed and handled poorly by both the Board and staff.
- Customer service and collections have become critical competencies now that the agency has implemented all-electronic tolling, but the department is often understaffed and does not employ many industry best practices.
- The major legal, engineering and financial consultants have worked effectively with staff to deliver innovative solutions that have made the NTTA a toll industry leader, but there have been inconsistent controls and inadequate definition of the scope of work performed by some of these consultants.
- The Board has not articulated an official view on the proper use of consultants and their role within the NTTA’s business model.
- Management lacks coordinated financial and operational analysis between departments on key decisions.

It is important to note that these criticisms come in the context of an organization with many strengths and a reputation as an international leader in the toll industry. These strengths include:

- Building and maintaining toll roads in a timely manner despite financial constraints and changes in leadership.
- High customer satisfaction and numerous awards in areas such as cashless tolling, customer service and budgeting.
- Relationships with relevant government entities that have improved significantly in recent years.
- Effective communication of key financial and operational information and innovative customer marketing campaigns.
- Strong Finance and Project Delivery functions.
- Solid business diversity structure in place.

Our recommendations are meant to help the NTTA build on those strengths. While we provide more detailed recommendations in our full report, over the coming six months, the NTTA Board and staff should make the following a priority:

- Develop and institute a governance model that defines the expected working relationship between Board and staff.
- Develop and implement more transparent Conflicts of Interest and Ethics policies.
- Conduct procurement of major consultants with procedural improvements that have been proposed.
- Finalize the organizational structure that has been proposed.
- Have General Counsel deliver an evaluation of new Legal Services protocols and propose any suggested changes.
- Develop a job description for Deputy Executive Director and begin a national search to fill that position.
- Institute enhanced oversight mechanisms and accountability for major consultants.

Over the next year, NTTA should:

Independent Financial and Performance Review of the NTTA
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- Develop an updated strategic and long range plan and actively manage to that plan.
- Conduct a comprehensive review of the collections organization, processes, systems, and enforcement options by collections specialists, and institute identified improvements.
- Establish an improved process for performance review and management of the Executive Director by the Board.
- Re-institute an incentive pay structure.
- Factor in demographic and functional backgrounds of future new Board member appointees to strengthen board oversight.
- Fill remaining open positions in the proposed new organizational structure, including an analytics function in Finance.

Finally, to demonstrate greater transparency and accountability, we also recommend that the NTTA provide quarterly reports on progress to the County Judges who initiated this assessment.

I look forward to discussing our findings and recommendations with you in person in greater detail. As you'll see, there are a number of additional areas we have addressed. And some of the issues we've raised have been raised before by other assessments. However, we felt it was important to provide an overview that was as clear and complete as possible, along with a blueprint to guide future operations and governance.

Please feel free to contact me with any questions. We appreciate this opportunity to work with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald Orsini", with a long horizontal flourish extending to the right.

Ronald Orsini
Managing Director

LEADERSHIP • PROBLEM SOLVING • VALUE CREATION



Independent Financial and Performance Review of the North Texas Tollway Authority

Final Report
October 18, 2011



- **Project Objectives, Scope and Approach**
 - **Summary Strengths**
 - **Summary Recommendations**
-
- **Key Observations and Recommendations**
 - Transparency
 - Organization
 - Procurement
 - Finance

Project Objectives:

- To ensure the effectiveness of the NTTA in carrying out its mission as the regional toll provider
- To evaluate the NTTA's financial, operating and administrative functions and assess whether the NTTA's goals and objectives are being achieved and the stakeholder concerns or needs are being addressed

Project Scope:

Transparency

- Governance (methods of Board's decision making, and Board and staff communication)
- Conflicts of interest and ethics for the NTTA Board, staff, and outside vendors
- Diverse composition of the NTTA Board

Organization

- Evaluation of senior management performance and organizational structure and effectiveness
- Current business model and proper use of consultants in core business functions

Procurement

- Authority-wide procurement policy and procedures compliance with Texas law
- Departmental standard operating procedures related to procurement activities
- Compliance with the NTTA's Diversity Policy in awarding contracts

Finance

- Liquidity and debt coverage compliance
- Funding alternatives
- Administrative fees and collection practices

The County Judges from Collin, Dallas, Denton and Tarrant counties selected Alvarez & Marsal, and their partner firm, Animato, to conduct the review. The assessment began on July 5, 2011 and ended on October 18, 2011

Firm	Team Member	Title	Focus Areas
Alvarez & Marsal	Ron Orsini	Managing Director	Project Leader
	Kevin McMahon	Managing Director	Organization
	John Cox	Senior Director	Transparency and Finance
	Trey Suttan	Director	Transparency and Finance
	Peter Mosley	Senior Associate	Transparency and Finance
Animato	Eric Noack	Vice President	Procurement
	Mary Jane Schuster	Vice President	Procurement and Organization

Research:

- Conducted interviews with over 50 individuals, including:
 - All Board members and senior staff members
 - Representatives from all major consulting firms and other NTTA advisors
 - Former employees and Board members
 - Toll and transportation experts
- Conducted survey of all employees with 243 responses (37% of employees surveyed)
- Reviewed best practices in procurement, Board governance, and organizational effectiveness, as well as practices of other comparable toll authorities and Texas state law
- Reviewed NTTA documents, including financial reports, presentations, past assessments, correspondences, performance review materials, policies, contracts, and Board meeting transcripts
- Attended all Board meetings and workshops since June 25, 2011

Approach:

- Confidential insights from individuals familiar with the NTTA were used as key inputs and used to identify common issues and relevant facts, but conclusions were not based on any single interviewee's opinion
- Focus was on:
 - The current situation at NTTA and changes underway, not historical analysis
 - Identifying and correcting the root causes of issues, not just treating symptoms
 - Proper functioning of the various roles and not on individuals or personalities

The North Texas Tollway Authority is fulfilling its mission to “enhance mobility through responsible and innovative tolling solutions”

- The authority has been successful in building and maintaining toll roads in a timely manner despite financial constraints and changes in leadership
- The authority’s high customer satisfaction and numerous awards in areas such as cashless tolling, customer service and budgeting have helped bolster NTTA’s reputation as an international leader in the toll industry
- Relationships with relevant government entities have improved significantly in recent years
- NTTA communicates key financial and operational information effectively and engages customers through innovative campaigns
- NTTA is financially and operationally prepared for the implementation of SB 469
- The NTTA’s two key functions, Finance and Project Delivery, are working effectively
- The authority’s consultant/staff business model allows for faster ramping up and down of operations and specialists as needs change
- Solid business diversity structure in place
- Significant improvements have begun in recent months
 - Hiring experienced industry in-house General Counsel and the newly-adopted Legal Services protocol
 - New procurement leadership, processes and controls
 - A new performance management process that drives “pay for performance”
 - An agency-wide scorecard is now being used to monitor performance against goals

Transparency

- Institute a more effective governance model and working relationship between Board and Executive Director
- Drive greater transparency through strengthened Board conflicts of interest and ethics structure
- Re-institute active Board committees for deeper understanding and fiduciary oversight of agency matters, especially Finance and Audit
- Ensure demographic representation and functional competencies are considered when appointing Board members to enhance decision-making
- Play a more active role in toll industry and with regional transportation entities
- Strengthen Board training on the toll industry, ethics, governance, Board best practices, and NTTA's financials and operations

Organization

- Enhance the organization structure with a strong Deputy Executive Director and stronger analytics
- Continue a mixed consultant / staff model to maintain flexibility, but ensure critical, permanent competencies are maintained with in-house staff
- Institute tighter oversight and controls of consultants, proactively managing work scope and budgets at the major task level
- Strengthen internal competency of legal matters and direct legal issues through GC to assign
- Conduct comprehensive review of collections organization, processes, systems, and enforcement options
- Establish improved performance management process of Executive Director by Board
- Reinstate incentive pay structure to reward and retain best employees

Procurement

- Adopt conventional procurement procedures with Board approval of selection process and scoring criteria
- Competitively reselect the major consultants on a staggered schedule, including separate GEC and PMC

Finance

- Reduce toll collections risk by pursuing stronger collections measures, and promoting legislative options to improve enforcement
- Create analytics group to support improved decision-making

- **Project Objectives, Scope and Approach**
- **Summary Strengths**
- **Summary Recommendations**

- **Key Observations and Recommendations**
 - Transparency
 - Organization
 - Procurement
 - Finance

- **Governance**
- **Conflicts of Interest**
- **Board Make-Up**
- **Communications with the Public**
- **Communications with the Transportation Community**

Many challenges in Board decision-making could be addressed through strengthened governance practices

Observations	Proof Points
Roles and responsibilities not clearly defined	<ul style="list-style-type: none"> • No broad agreement on expectations of Board and Executive Director • Bylaws do not delineate responsibilities and limit authorities and involvement • Director on-boarding materials do not include information that outlines the specific responsibilities of Board members. Interviews indicate limited effectiveness of Board training • Board is involved in details beyond policy on which they are not fully versed such as employee awards banquet and marketing plan tactics (both <\$100,000)
Executive director not engaging Board members on topics prior to Board meetings	<ul style="list-style-type: none"> • Board members and ED rarely meet outside of Board meetings • ED not engaging Board members on topics of interest, new ideas, or potential priorities • ED and staff not able to factor in Board member concerns prior to Board meeting discussion
Board and staff not always clear on current topics or previous Board meeting decisions	<ul style="list-style-type: none"> • Directors have varying levels of experience with public transportation • Multiple Board members stated it takes one year to develop an understanding and solid knowledge of NTTA • Some recent staff presentations did not provide sufficient information, nor clear recommendations, which lead to ineffective Board decision-making • ED has been unclear at times on direction of Board (e.g. PMC/GEC structure and hiring Deputy ED) • Directors have questioned staff on basic topics in Board meetings • There is no annual / ongoing Board training on critical agency topics or strategies
Board and ED have difficulty reaching decisions and achieving objectives	<ul style="list-style-type: none"> • For admin fees, staff provided Board with necessary information and a recommended course of action, but Board did not reach a decision for over seven months • Staff has also made recommendations for the new procurement process and consultant / staff business model, but no final decisions have been voted on • NTTA has not executed on recommendations consistently identified in previous studies
NTTA's priorities going forward are not clearly understood by some staff and Board members	<ul style="list-style-type: none"> • Board not actively involved in development of strategic plan and that plan is not followed • Board agendas not driven by forward-looking priorities • Numerous staff stated NTTA must first establish its mission going forward which will drive subsequent priorities

Observations	Proof Points
Board abolished key committees in 2010: Finance & Audit, Administration, System Projects and Operations Committee (SPOC)	<ul style="list-style-type: none"> • Committees were not perceived as objective and representative of the full Board • Not utilizing committees underutilizes Board members' experience and expertise, reduces fiduciary oversight and forces the full Board to resolve committee level issues • Without Finance & Audit Committee, Board spends insufficient time assessing key risk areas
Internal Audit group serving an important role but not evaluating key areas	<ul style="list-style-type: none"> • Internal Audit has made 32 assessments since its formation in 2008 • Key areas not examined include Conflicts of Interest policy, collections process, and third-party TollTag issuing partners

Recommendations

1. Develop clear roles and responsibilities of Board, Board Chair and Executive Director to ensure smoother operations and clarified expectations. (Detailed recommendations are in full report)
2. Responsibilities of Board committees, and the support from staff and external advisors, should be defined upfront and be realistic and manageable
3. Chair and ED should structure meeting agendas to focus attention on the most important policy decisions and updates
4. Board secretary should circulate Board materials in advance, clearly indicating which topics require decisions and which are for discussion/input
5. Board secretary should include relevant sections of Board meeting minutes from past meetings in the Board's materials when topics are revisited to ensure attendees have a common historical context
6. ED should engage directors within the guidelines of the Open Meetings Act to ensure they are well versed on critical topics and that directors' questions and concerns are considered
7. ED should ensure staff presentations remind Board members of prior decisions, anticipate questions, articulate recommendations, and include a business case for Board decision-making
8. Strategic planning process should include meaningful involvement from the Board; the Board and ED should manage to the plan
9. Committees should be re-established and the purpose, scope, and roles of the committees should be defined by charter
10. Reconstituted Finance & Audit Committee to actively assess risk areas and review annual internal audit plans. Priority audits should be conducted on the key end-to-end collections process and the third-party distributors of TollTags

Recommended elements that delineate responsibilities and authorities of the chair, the Board and the executive director

Board Chair	Board Members	Executive Director
<ul style="list-style-type: none"> Establishes clear leadership roles (officers and committee chairs) to drive its activities effectively Provides leadership to the Board Ensures effective action of the Board Convenes Board meetings and makes arrangements Establishes committees and appoints committee chairs / other participants Speaks to the public consistent with Board decisions Ensures the Board and executive management develops a strategic plan that supports NTTA's mission and vision Develops meeting agendas with the ED Works with the ED and Board to identify specific outputs and outcomes to measure success for NTTA's efforts 	<ul style="list-style-type: none"> Set strategic direction through planning, organizational alignment, oversight, and accountability Understand and support NTTA's mission Focus on the major policies and actions Understand and adhere to the NTTA's bylaws and policies Vote on major policies and major actions Prepare and attend Board level meetings, and participate in committees based expertise Understand the NTTA's exposure to risks and hold management accountable for addressing the exposures Evaluate the performance of the ED Approve risk-management policy and plan that dictates how NTTA is protected to maintain the public trust Review and approve an organization-wide policies and procedures manual Demand high standards of ethics, transparency, and accountability from management and other directors Solicit input from and promote the organization to outside stakeholders Keep Board meetings and deliberations timely, orderly and to the point 	<ul style="list-style-type: none"> Sets strategic direction, in conjunction with the Board through planning, organizational alignment, and execution Informs Board to help shape policy and mission Manages day-to-day other activities and reports to respective Board committees Requests assistance on specific tasks from the Board and drives execution of those tasks Works closely with Deputy Executive Director to stay current and advise on operational matters Engages Board members regularly Fosters the development of new leaders to fill future roles as needed Understands the NTTA's exposure to risks and actively manages that exposure Ensures the NTTA's objectives are properly supported by NTTA's staff and org structure Solicits input from and promotes the organization to outside stakeholders Properly prepares for Board meetings to ensure staff are prepared and meetings are productive

Good governance framework per Federal Highway Transit Administration

Characteristic	Description
Achieves Goals	Achieves the goals identified in the strategic plan. In terms of transit system performance, at a minimum, this would include the quality of the transit service, meeting community needs, increased ridership, and so on.
Assesses Progress	Monitors its progress on an annual basis, but also conducts a through assessment every 3 to 5 years. Such an assessment would not only evaluate progress in terms of the transit system's performance, but also evaluate the effectiveness of the Board's organization, structure and functioning, and its impact on performance. A comprehensive assessment includes evaluating the Board's composition, membership, orientation, meetings, committee structure, and information flow, as well as transit system performance criteria. This type of assessment would be under the purview of the Board development committee.
Balanced	Represents and reflects the community and its customers across several dimensions. These dimensions include age, gender, race, skills and talent, transit system riders, constituency, and jurisdictional and political representation. In terms of skills and talent, many focus group participants mentioned the importance of having Board members who are political, as well as those with business, financial, legal, and marketing backgrounds.
Cohesive Group	Functions as a cohesive group. Open communication is encouraged, but the group supports the majority opinion. Personal and individual agendas are eliminated or decreased for the good of the transit system. Board members are team players who are willing to support the majority decisions of the Board.
Committed	Is committed to and advocates for public transit. Board members are focused and accountable. They attend meetings, devote adequate time for meeting preparation, stay abreast of the issues, and participate in meetings and work to influence favorable outcomes for the transit system.
Educates	Informs and educates its members. All new members receive a orientation, which includes at a minimum: (1) a thorough introduction to transit history and current facts; (2) budget information; (3) policies, procedures and statistics about the transit system; (4) meetings with the general manager/CEO and key staff, Board chair and executive committee chairs; and (5) tours of the equipment and facilities. In addition, they are informed of the role and responsibilities of a Board member, kept abreast of current issues, and provided access to ongoing education and training.
Focuses on Policy	Understands the distinction between policy and management and focuses on policy making. Member role clarity and expectations are communicated and reinforced by the Board chair and executive committee. All activities, such as meetings and agenda items are designed to focus members on policy making and away from day-today management concerns.

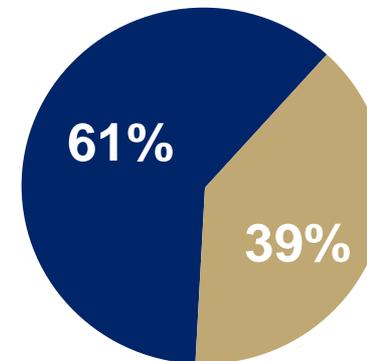
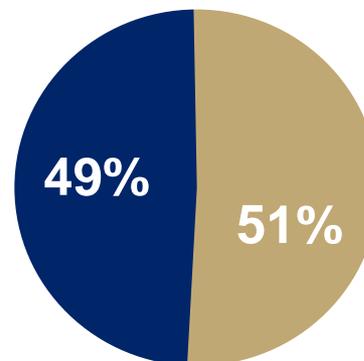
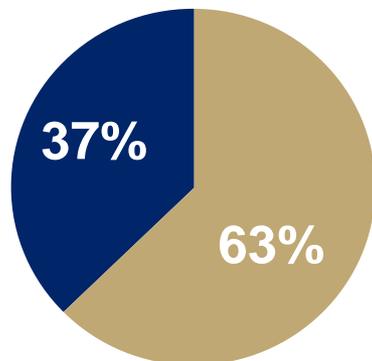
Good governance framework per Federal Highway Transit Administration

Observations	Examples
Maintains Good Communication	Communicates with stakeholders and employees in an open and honest way, and challenges assumptions in a constructive and informed fashion. The Board assures the flow of accurate information in a timely manner to all members, including the dissemination of written materials prior to Board and committee meetings.
Maintains a Good Relationship with CEO	Establishes positive and supportive working relationships with the chief executive officer and senior support staff.
Helps to Improve Transit System Performance	Puts service on the street in a cost-effective manner that meets the mobility needs of the community. Performance measures include cost per revenue miles, cost per revenue hours, vehicle-hours per employee, and vehicle miles.
Increases Revenue	Understands and undertakes a critical fund-raising role, which includes generating ridership and toll income. This role often includes communicating with legislators and other key leaders through meetings, information dissemination, presentations, and providing testimony.
Knowledgeable	Works collaboratively. They are knowledgeable of the community that the system serves in terms of culture and needs of the community business leaders, and other organizations.
Politically Astute	Establishes good working relationships with all constituent groups and stakeholders, including, employees, support staff, community, legislators, politicians, and labor. Politically astute Boards also monitor employee morale and the system's reputation and image in the community.
Strategic	Helps the transit system to set a strategic direction and shape a strategy for the future. The Board helps the system to identify and maintain focus on strategic priorities.
Strong Chair	Leads and motivates the Board in achievement of the transit system's mission, strategic goals, and performance. A strong chairperson is essential for an effective Transit Board.

Most key Board Committees have ceased to function

		2009					2010					2011				
Meeting Type		1Q	2Q	3Q	4Q	EOY	1Q	2Q	3Q	4Q	EOY	1Q	2Q	3Q	YTD	Total
Board Mtgs	Board Meeting	3	3	2	2	10	3	2	3	3	11	3	4	1	8	29
	Board Working Session		1	1	1	3		1	1	1	3	2	3		5	20
	SC Board Meeting	2	3	1		6		1	2	5	8		1		1	2
Committee Mtgs	Admin Committee	2	2	2	3	9	3	1	2	x	6	x	1	x	1	16
	Finance / Audit Committee	1	4	3	3	11	3	3	3	x	9	x	x	x	0	6
	Legal Services	N/A	N/A	N/A	N/A	0	N/A	N/A	N/A	N/A	0	2	3	1	6	20
	SPOC	2	3	3	3	11	3	2	3	x	8	x	1	x	1	15
	Legislative Committee				1	1					0	1			1	6
Total		10	16	12	13	51	12	10	14	9	45	8	13	2	23	119

■ Board Meetings
■ Committee Meetings



An Example of Board Meeting Ineffectiveness

Staff provided Board with necessary information and a recommended course of action but Board did not take action for over seven months

Date	Meeting	Topic(s) / Discussion	Outcome
08/03/09	Finance and Audit Committee	<p>Request for changes in administrative fees</p> <p><i>“We feel if we don't start paying attention to this, being able to explain it, then our partners in Austin will probably intervene on our behalf and explain it for us.”</i></p> <p><i>“Bottom line is the fees from the public's perception are excessive compared to the problem that's out there. I don't see how these fees can survive at this level. I think we're going to have to address them.”</i></p>	<p style="text-align: center;">✘</p> <p>No Decision</p>
12/07/09	Finance and Audit Committee	<p>Additional presentations regarding the request for changes in administrative fees entitled “Assessment of Administrative Fees for Failure to pay tolls”</p> <p><i>“We looked at 21 toll agencies that were surveyed regarding their administrative fees, their processes for toll violations. Eighteen charged the same or higher than NTTA and three agencies charged less.”</i></p>	<p style="text-align: center;">✘</p> <p>No Decision</p>
01/11/10	Finance and Audit Committee	More Q&A	<p style="text-align: center;">✘</p> <p>No Decision</p>
02/04/10	Finance and Audit Committee	Even more Q&A	<p style="text-align: center;">✘</p> <p>No Decision</p>
03/24/10	Board Meeting	Voted to change the administrative fees (8-1)	<p style="text-align: center;">✔</p> <p>Decision</p>
06/17/11	SB 469 is signed by the Governor		

Challenges are repeatedly identified in previous studies, but NTTA Board and leadership have not implemented necessary changes

Themes	Cultural Assessment (3/2009)	Strategic Plan (2008 for Years 2009-2014)	Organizational Assessment (2010)	Employee Survey (2011)	Strategic Plan (2010 for Years 2011-2016)
Roles and responsibilities need to be delineated more clearly	✓	✓	✓	✓	✓
Board / ED are not aligned on strategic direction and decisions	✓		✓	✓	
Working relations between Board / ED and Board/Staff need improvement	✓	✓	✓	✓	✓
Board meeting preparation and presentation need improvements	✓		✓	✓	

Azimuth Report on organizational design highlights Board inaction

Clarity of Governance Model

- The division between policy setting and administrative decision making, and the protocols for Board / staff communication and direction setting, should be clearly established and observed
- The demarcation of policy setting and administrative decision making, and the protocols for Board / staff communication and direction setting should be clearly established, documented and observed
- Some public sector Boards have adopted formal statements on governance and many have adopted codes of conduct and ethics to codify expectations in these areas
- Meeting procedures, agenda development, workshop sessions and best structure and process for the utilization of Board committees should be re-examined on a periodic basis

Strategic Priorities

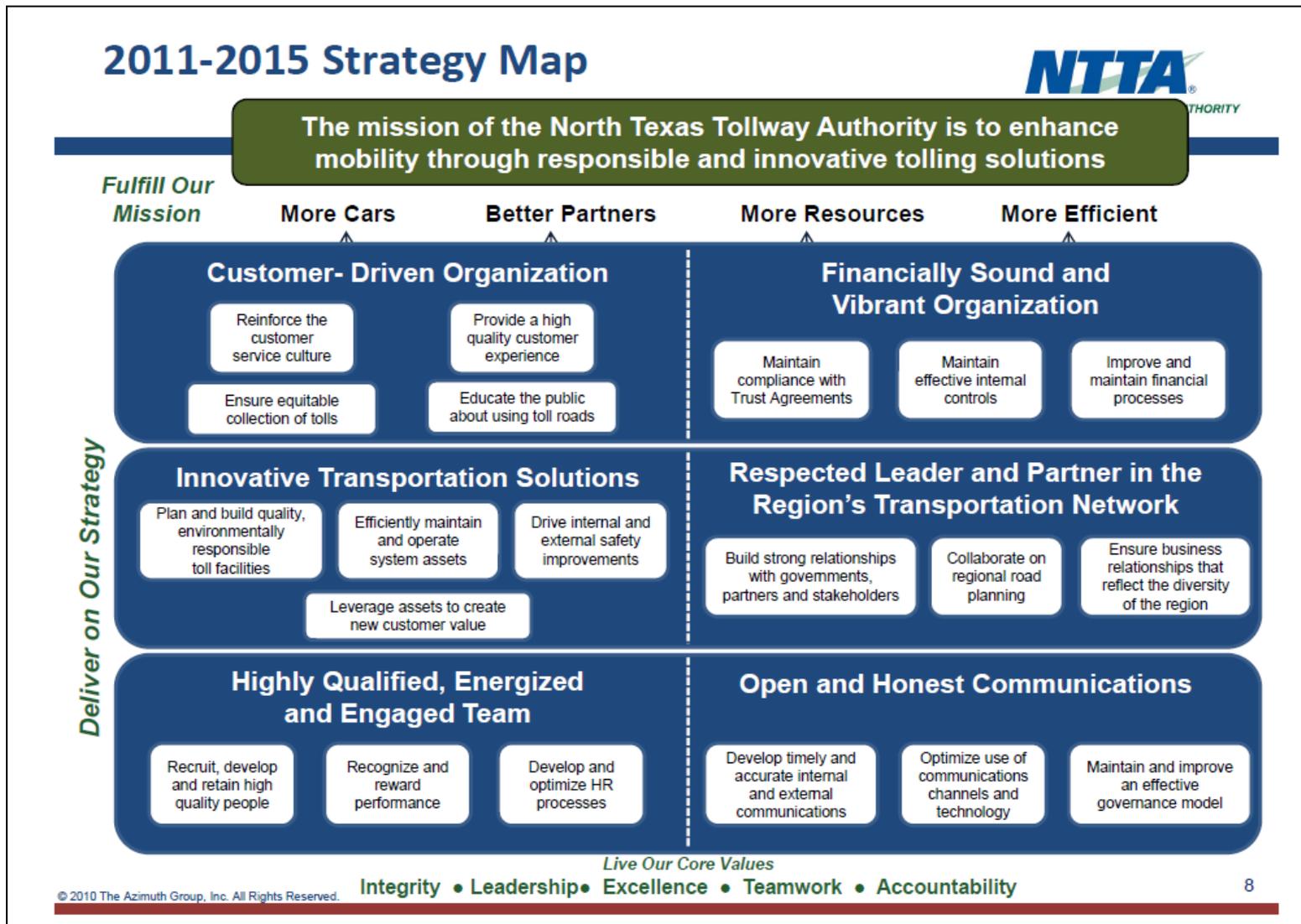
- The Board of Directors and Executive Team need to share a common vision and understanding of the priorities, goals, and objectives of the agency and work together to ensure that resources are provided and allocated appropriately to achieve the desired ends
- Board and Executive Team need to share a common vision and understanding of the priorities, goals and objectives of the agency and work together to ensure resources are provided and allocated appropriately to achieve desired ends
- The bi-annual strategic planning process can serve as venue for creation of common vision
- Periodic reporting of progress against strategic priorities and the explicit re-definition of priorities as new events and opportunities suggest a directional change, are both important

Improved Access To Information For Decision Making Is Needed

- For both policy makers and managers it is important that there is one version of the truth – today no agreement on what data is important nor easy to access or use

Source: Azimuth Report on Organizational Design - October 2010

NTTA has made governance and communications priorities in its strategy, but are not implemented



Internal Audits by Year

2008*	2009	2010	2011
<ul style="list-style-type: none"> • Expense Policy Compliance 	<ul style="list-style-type: none"> • Procurement Review • Lewisville Lake Toll Bridge Audit • Training Program • CapitalSoft Review • Fixed Asset Audit • On Boarding/Off Boarding Process • Limited Scope - Fund Transfer Segregation of Controls Review • Open Records Request • Executive Management and Board Expense Review • Data Integrity Audit • Contract Process • Portfolio Calculation Audit • Funds and Bond Proceeds Audit • Physical Security - Building Access Review • Privacy Audit • Lane and Vault Cash Handling 	<ul style="list-style-type: none"> • Transaction Costs • Fleet Fuel Purchase Process • Business Rule Process • Bond Proceeds and Funds Review Follow-up Audit • Limited Scope - Payment Process Review • Funds Commitment Process • Change Management Process • Workforce Management • Third Party Management Review • Recruiting and Hiring Compliance Review • General Computer Controls Review • Image Capture Verification • Time and Materials Contracts 	<ul style="list-style-type: none"> • Executive Management and Board Expense Review • Customer Reimbursements

* Internal Audit function was formed in 2008

Establish policies and procedures to address concerns about conflicts

Observations

The perception of conflicts of interest is widely held, and while our review did not find proven malfeasance or impropriety, the appearance of conflicts creates public and internal distrust

NTTA does not have a separate and distinct policy in place for conflicts of interest, in contrast to the majority of similar organizations

Proof Points

- Some Board members have family or business ties that involve NTTA consultants or right-of-way transactions
- Guidance regarding conflicts is imbedded in a number of NTTA policies (e.g. procurement) and state and federal statute but are not clearly delineated for Board members
- Directors are not required to annually attest that they a) understand the policies and b) disclose any conflicts or confirm that they are free of conflicts
- Study conducted by BoardSource found that 95% of non-profits had a Board Conflicts of Interest policy

Recommendations

1. Board should draft governing policies for matters that might lead to or create the appearance of conflict, ensure its enforcement, and ask each Board and executive staff member to agree in writing to uphold the policy
2. At a minimum, the Board conflicts of interest policy should:
 - Define conflicts of interest
 - Specify persons who will be covered
 - Require regular disclosure of information related to conflicts of interest
 - Specify procedures for handling potential or actual conflicts when they arise
3. NTTA should designate an Ethics Officer to oversee management of the process. This is commonly the in-house General Counsel
4. The Board should participate in annual conflicts of interest and ethics training

Recommended Action Plan for Conflicts of Interest Policy

No. Task

1. Organize working session to discuss and agree on policy objectives
2. Determine scope of conflicts of interest policy (Director, Family Members, Employer, Business Associates, Other)
3. Categorize potential impacts of conflicts (Perception, Reputational, Legal, etc)
4. Develop list of past events or likely scenarios and run the course using these examples
5. Review peer organizations' policies to understand common provisions/thresholds
6. Draft outline of content
7. Circulate to Board / committees for comment
8. Revise and gain agreement on outline/content
9. Define procedures for:
 - Reviewing and confirming independence
 - Monitoring adherence to policy
 - Enforcing policy violations
 - Resolving complaints/concerns
 - Communicating issues in a transparent fashion (public announcement, judges, etc.)
 - Course of action for violations of conflicts of interest policy
10. Review / evaluate policy draft in terms of cost/benefit and compare to industry standard
11. Draft conflicts of interest policy that includes the following:
 - Covered roles/positions (i.e. Board, ED, senior staff)
 - Clear and ratified definition of conflicts of interest
 - Disclosure requirements for Board members and NTTA management
 - Provision prohibiting conflicted individuals from trying to influence or lobby another individual
 - Process to capture potential conflicts and mechanism to track the issues through resolution
 - Annual requirement to review policy and confirm understanding and adherence
12. Assess roll-out / training needs and develop materials
13. Submit to County Commissioners Courts for review / comment
14. Review and approve in open session, incorporate feedback, and post ratified policy on website

Board is comprised of a mix of public and private sector leaders, but does not align with the region's demographics or agency's required functional competencies

Observations	Proof Points
The Board is comprised of a healthy mix of leaders from the region with both public and private sector experience	<ul style="list-style-type: none">• Regional Board composition in the bylaws• The current Board has a mix members with public and private sector experience and several with experience with transportation policy making
As a whole, the Board lacks depth in certain skills that would benefit the organization, such as corporate finance	<ul style="list-style-type: none">• Financial matters such as bond financing are critical to the organization and decisions are rarely challenged by Board• The County Commissioners courts do not coordinate on Board appointments, and collective backgrounds and skillsets needed are not explicit considerations during the appointment process
Composition of NTTA's Board does not reflect the constituent population	<ul style="list-style-type: none">• Board's racial composition is not fully aligned with the demographics of the community• The DFW Airport and Texas DMV Boards are more diverse than NTTA's Board• Board diversity will help to ensure broad community issues are considered

Recommendations

1. County Judges and Commissioners Courts should consider Board members' backgrounds and functional competencies collectively when appointing new directors with a particular emphasis on finance, the toll industry and regional transportation issues
2. Strategically recruit across all demographics by leveraging Board member recommendations, cultivate ongoing relationships with community leaders and corporate organizations, and approach organizations with greater access to desired demographic groups

County	Total	Anglo	African -Amer	Hispanic	Other
Collin	785,314	563,234	44,379	108,172	69,529
Dallas	2,429,276	782,369	490,052	1,009,151	147,704
Denton	657,876	467,321	46,295	106,904	37,356
Tarrant	1,779,396	907,385	247,805	508,345	115,861
Total	5,651,862	2,720,309	828,531	1,732,572	370,450

County	Total	Anglo	African -Amer	Hispanic	Other
Collin	100%	72%	6%	14%	9%
Dallas	100%	32%	20%	42%	6%
Denton	100%	71%	7%	16%	6%
Tarrant	100%	51%	14%	29%	7%
Average	100%	48%	15%	31%	7%

Source: 2010 US Census, US Census Bureau

The nine-member Board is appointed by the Governor, who also designates one Board member to serve as Chairman. The Board selects one of its members to serve as Vice Chairman. By law, Board members must include:

- 1 county tax assessor-collector
- 2 franchised auto dealers
- 1 independent auto dealer
- 1 representative from the vehicle manufacturing or distribution industry
- 1 representative from the motor carrier industry
- 1 county or city law enforcement representative
- 2 customer (public) representatives



Victor T. Vandergriff
Arlington
Chairman
Customer (Public)
Representative



Clifford Butler
Mount Pleasant
Board Member
Customer (Public)
Representative



Blake Ingram
Sunnyvale
Board Member
Independent Auto Dealer



Laura Ryan
Cypress
Board Member
Vehicle Manufacturing /
Distribution Industry



Marvin Rush
Seguin
Board Member
Franchised Auto Dealer

Photo
Comming
Soon

Raymond Palacios Jr.
El Paso
Board Member
Franchised Auto Dealer



Cheryl Johnson
Friendswood
Board Member
Tax Assessor-Collector



Victor Rodriguez
McAllen
Board Member
Law Enforcement



John Walker III
Houston
Board Member
Motor Carrier Industry



Francisco Hernandez
Chair, Board of Directors



Robert W. Hsueh
Vice Chair, Board of Directors



Forrest Smith
Board Member



Betty J. Culbreath
Board Member



Jeffrey K. Wentworth
Secretary, Board of Directors



Mayor Mike Rawlings
Board Member



Glenn Porterfield
Board Member



Ben P. Muro
Board Member



Mayor Betsy Price
Board Member



Lillie M. Biggins
Board Member



Brenda Reyes
Board Member



Bernice J. Washington
Board Member

Board Composition an Important Consideration for New Member Selection



The following is provided as a sample tool that could be used to monitor composition of NTTA's Board and aid selection criteria for new members

Demographics	Current Board	Importance	Priority	Expertise	Current Board	Importance	Priority
Ethnicity				Highway Maintenance and Mgmt			
African American/Black				Contract Management			
Asian/Pacific Islander				Legal Services			
Caucasian				Maintenance			
Hispanic/Latino				Procurement			
Native American/Indian				Right-of-Way Acquisition			
Other:				Toll Operations			
Community Relations				Traffic Safety/Enforcement			
Regional Partners				Finance			
Federal Funding Agencies				Legal Services			
Industry Corporations							
Media							
Government							
Political/ Government							

Stakeholder communications is strong in some areas, but NTTA can improve communications consistency

Observations	Proof Points
Communications group employs innovative tactics and awareness campaigns to engage customers	<ul style="list-style-type: none">• Has kept pace with advances in technology (e.g. Twitter, Facebook)• Uses innovative approaches to reach customers (Cowboys Campaign, The Bee Campaign)• Has demonstrated a willingness to adjust and/or cancel an initiative based on its effectiveness (TollTag RV)
NTTA does a good job of disclosing financial and operating reports	<ul style="list-style-type: none">• The following reports are accessible on NTTA's website: Monthly Financials, Annual Budgets, Comprehensive Annual Financial Report
Board does not always have a consistent message to the public, thus creating negative public perception	<ul style="list-style-type: none">• Directors have made contradictory statements to the public (Admin fees, procurement decisions, influence of consultants)

Recommendations

1. Board communications to staff and the public should be consistent with the generally held views of the Board and its decisions
2. County Commissioners Courts should hold the Board accountable through appointments for resolving disagreements in working and committee sessions and effectively supporting and communicating Board decisions
3. Chair should be accountable for encouraging all directors to continue to request information and ask questions of staff in working and committee sessions to facilitate fully informed decisions at board meetings
4. Detailed Minutes from the Board Meetings should be posted on NTTA's website to be consistent with best practices

NTTA actively engages customers and its financial stakeholders

NTTA does a good job of disclosing financial and operating reports. For example, the following reports are accessible on NTTA's website:

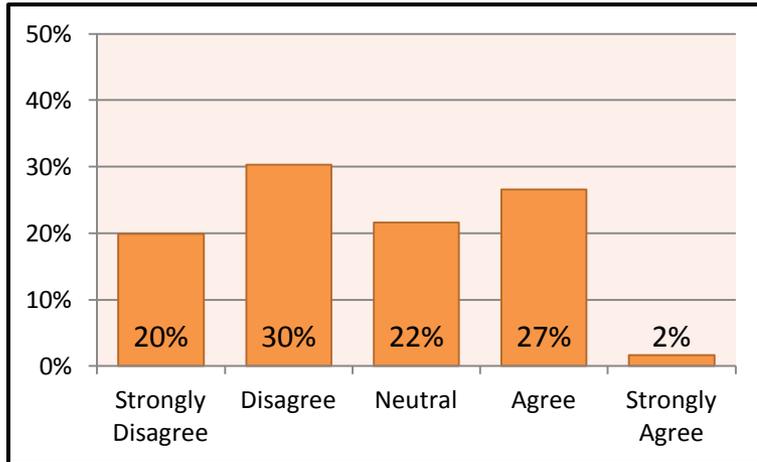
- Monthly Financials
- Annual Budgets
- Comprehensive Annual Financial Report
- Annual Transaction Report
- Annual Revenue Report
- Monthly Project Delivery Report
- Semi-Annual Progress Report (Construction)
- Investment Grade Traffic and Toll Revenue Report (New Projects)
- T&R Update letters
- Bond Official Statements
- Check Register

NTTA employs innovative tactics and awareness campaigns to engage customers

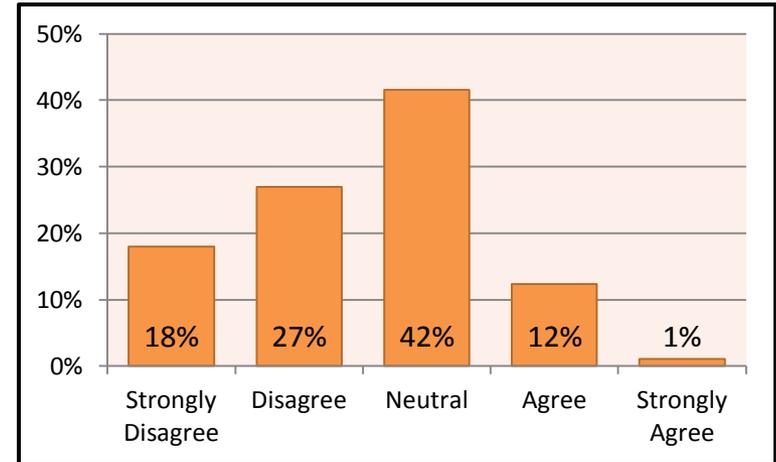
- Has kept pace with advances in technology (Twitter, Facebook)
- Uses innovative approaches to reach customers (Cowboys Campaign, The Bee Campaign)
- Has demonstrated a willingness to adjust and/or cancel an initiative based on its effectiveness (TollTag RV)

Communications Among the Board, ED, and Staff Needs Improvement

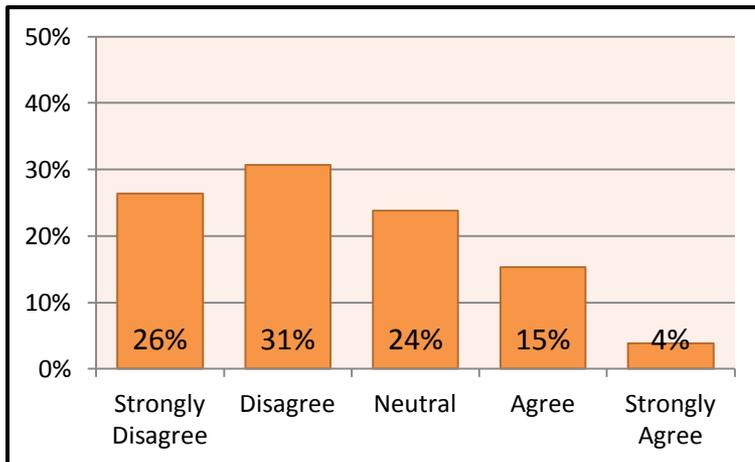
There is the right amount of communication between NTTA Executive Management and employees



NTTA Executive Management and the Board of Directors communicates well with each other



The NTTA Board of Directors is in touch with what goes on in the organization



Regional and industry involvement is improving, but needs to be a growing area of focus

Observations

Relationships with relevant government entities are improving

NTTA's near-term cash position will require new approaches to financing projects and greater collaboration with other transportation partners

NTTA's reputation as a toll industry leader is strong, but executive management involvement at industry events has declined

Proof Points

- NTTA's relationship with the Regional Transportation Council (RTC) has improved significantly in recent years; the joint evaluation of I-35 managed lanes has gone well
- Chisholm Trail shows that improvement in NTTA's TxDOT relationship results in creative financing for projects, especially in a time of limited alternatives
- Projected net operating revenue remains tight to the targeted coverage ratios throughout the 2012-2016 capital plan
- Key management team members rarely attend IBTTA events

Recommendations

1. As part of an overall strategy, NTTA's Board and ED should continue to focus on building and strengthening relationships to enable future projects
 - Federal and state: Federal DOT, TxDOT
 - Regional: RTC, RMA's, NCTCOG, Counties
 - Private: CDA developers
2. NTTA should play an industry leadership role by having key members of the management team – including the ED – attend and present at industry events and create an ongoing dialogue with leading agencies like HCTRA and Florida Turnpike

- **Employee Morale**
- **Performance Management**
- **Organizational Design**
- **Major Consultants**

Employee morale, trust and engagement have declined over the past year

Observations

Morale impacted due to cuts in staff programs (i.e. incentive raises and other employee benefits), re-visiting issues/recommendations with the Board, lack of shared agreement of agency priorities and general teamwork across executive management

Executive Management and Board of Directors are perceived to be not in touch with day-to-day operations

Perceived lack of trust exists between employees and management due to fear “of getting in trouble” if disagreeing with the Board, executive management or consultants

Proof Points

Lowest rated survey questions (i.e. questions with strongest disagreement):

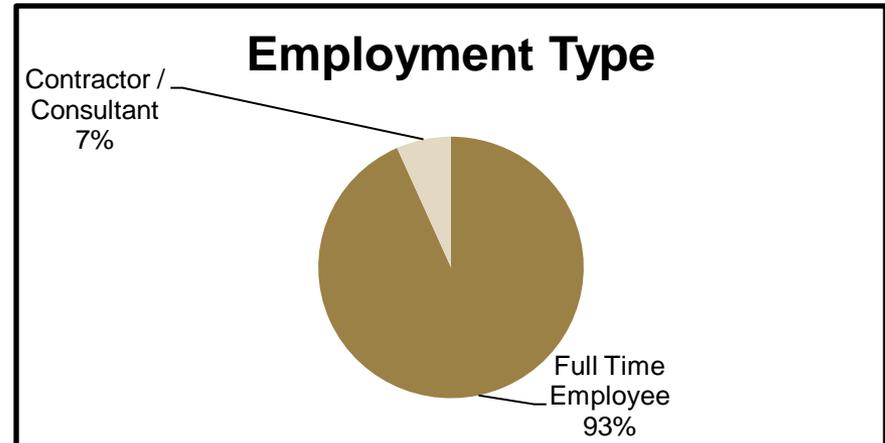
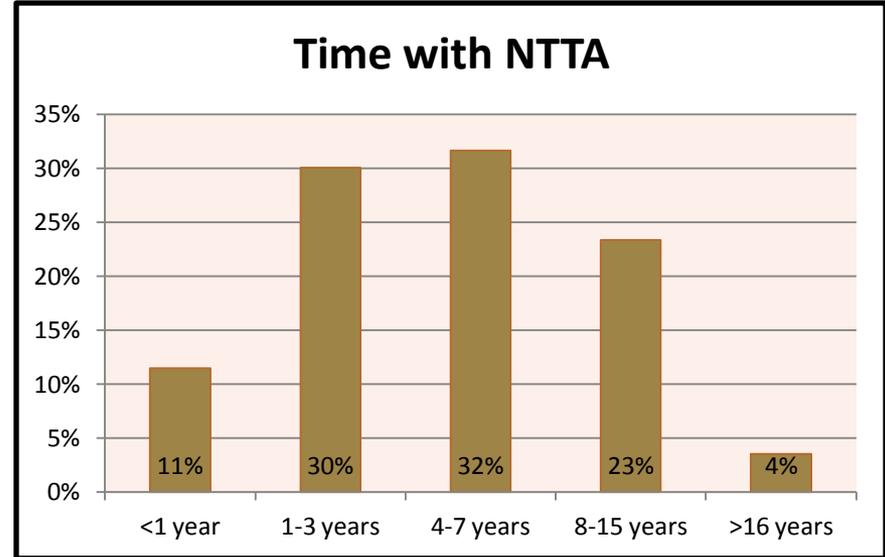
- The Board of Directors is in touch with what goes on in the organization
- I can disagree with Executive Management without fear of getting in trouble
- There is the right amount of communication between Executive Management and employees
- I can disagree with the Board of Directors without fear of getting in trouble
- Executive Management is in touch with what goes on in the organization
- I trust the current Executive Management
- Executive Management and the Board of Directors communicates well with each other

Recommendations

1. Re-institute performance based incentive pay increases to reward and drive performance
2. Board Chairman and ED should meet with a sampling of employees (core levels and functions) in focus groups to discuss the survey results and gain additional insight to these issues and develop improvement initiatives
3. Strengthen operations focus of on-boarding materials for existing and new Board members
4. Board Chairman and ED should develop a marketing plan to communicate findings from the county review and proposed initiatives to address areas of concern
5. Administer engagement/morale survey in next year after key changes/decisions have been made to monitor progress and shape future priorities
6. Improvements to communication, cooperation across the organization and with the Board are addressed in organizational structure and Board governance recommendations

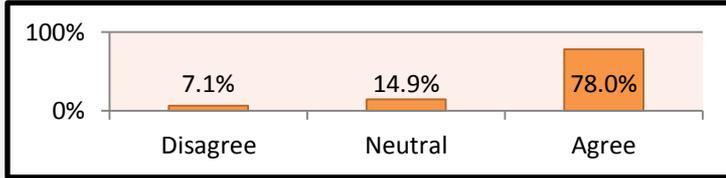
Employee Survey – 243 (37%) Full Completes

Department	Responders	Percentage
IT	39	15%
Customer Service	75	29%
Maintenance	34	13%
System and Incident Management	32	12%
Finance	21	8%
Project Delivery	19	7%
Declined to Answer	15	6%
Human Resources	7	3%
Communications and Marketing	4	2%
Internal Audit/General Counsel	3	1%
Government Affairs	2	1%
Procurement	2	1%
Administration	2	1%
Operations	2	1%
Business Diversity	1	0%

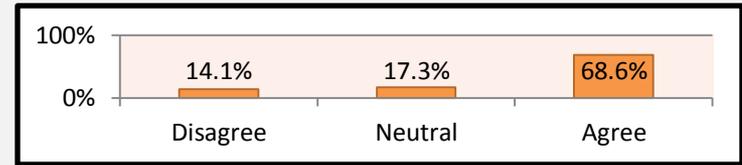


Employee Survey – Strong Agreement

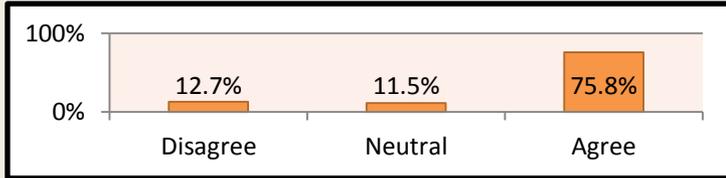
I understand how my job is linked to NTTA's mission, vision and objectives



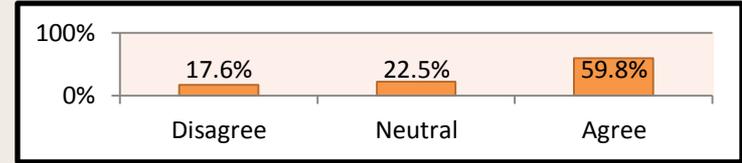
The NTTA mission, vision and objectives have been clearly communicated to me.



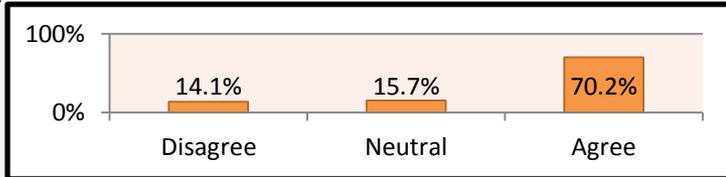
I have clearly defined/documented goals and objectives



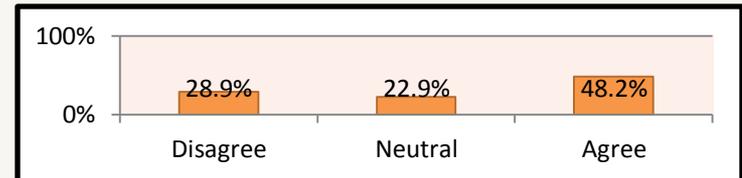
NTTA Executive Management (the Executive Director and the Assistant Executive Directors) holds employees and consultants accountable for their actions and results.



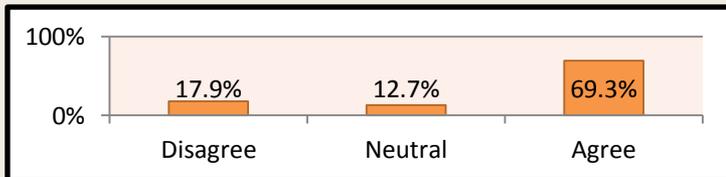
Departments and individuals understand their basic roles and responsibilities



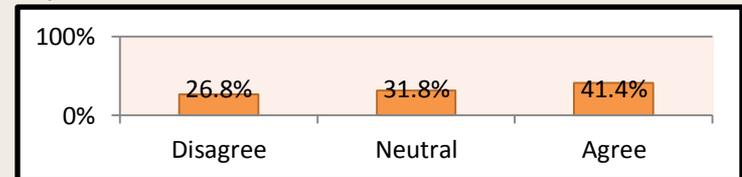
I am kept informed about important developments with NTTA



I am given adequate feedback about performance against my goals and objectives

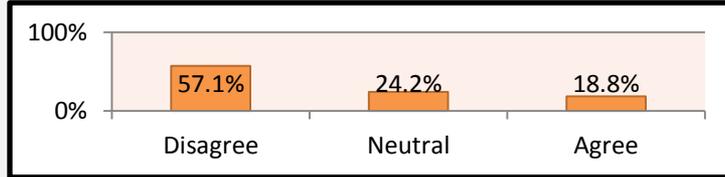


NTTA Executive Management agrees with each other relative to the mission, vision and objectives of NTTA

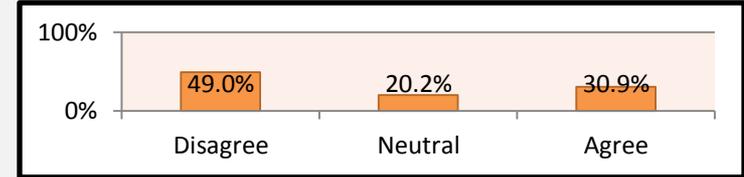


Employee Survey – Strong Disagreement

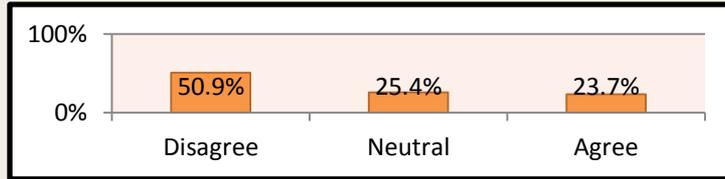
The NTTA Board of Directors is in touch with what goes on in the organization



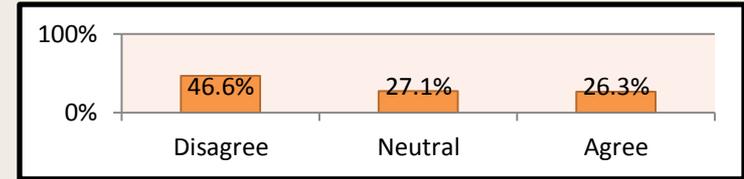
NTTA Executive Management is in touch with what goes on in the organization



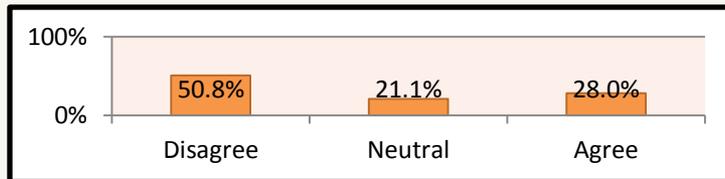
I can disagree with NTTA Executive Management without fear of getting in trouble



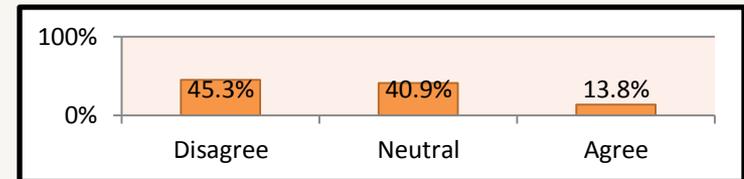
I trust the current NTTA Executive Management



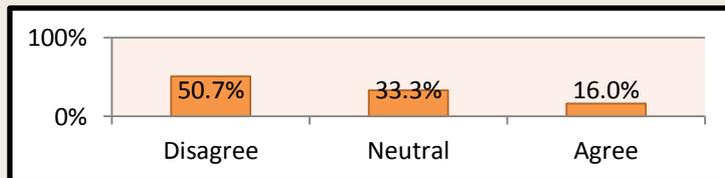
There is the right amount of communication between NTTA Executive Management and employees



NTTA Executive Management and the Board of Directors communicates well with each other

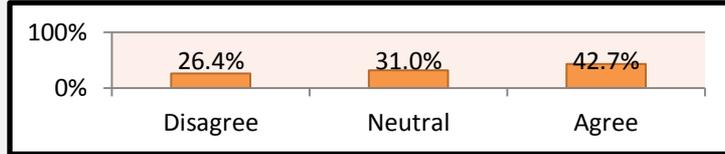


I can disagree with the Board of Directors without fear of getting in trouble

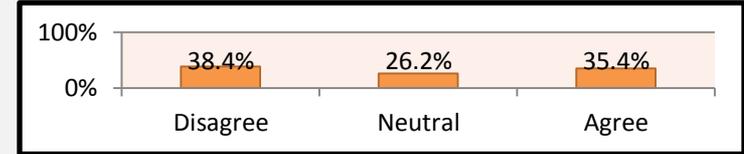


Employee Survey – Additional Responses

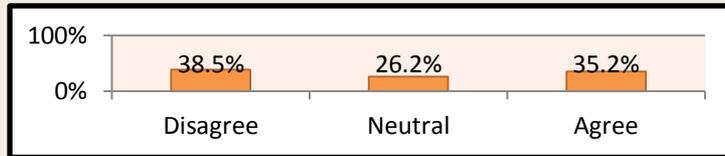
NTTA Executive Management is technically competent in their functional area of expertise



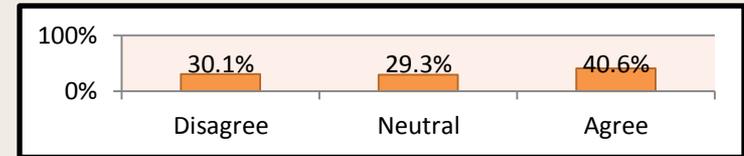
NTTA Executive Management empowers employees to make decisions on their own



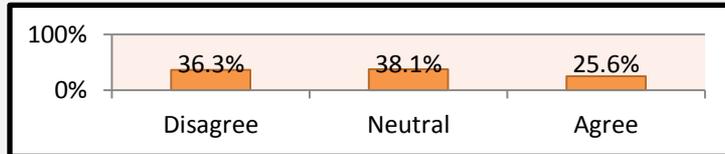
NTTA Executive Management demonstrates strong leadership skills



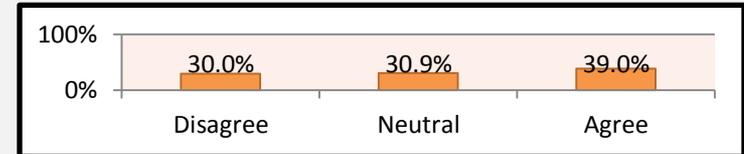
NTTA Executive Management encourages innovative solutions and new ideas



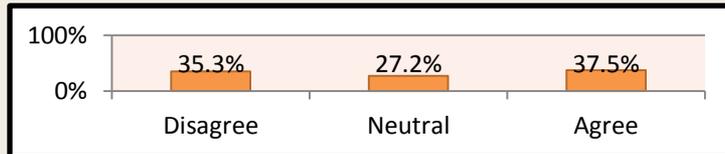
NTTA Executive Management and the NTTA Board of Directors agree with each other relative to the mission, vision and objectives of NTTA



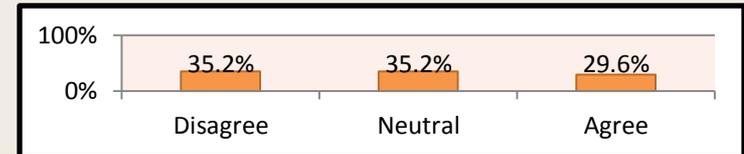
I can disagree with NTTA's consultants without fear of getting in trouble



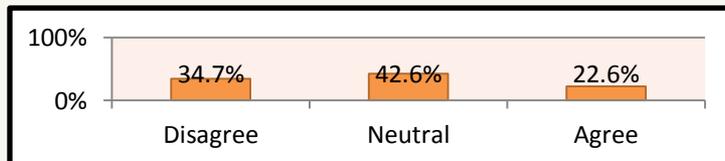
NTTA uses the right mix of full time employees versus consultants to achieve its mission, vision and objectives



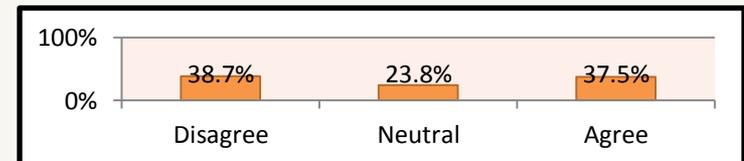
Messages from NTTA Executive Management are consistent across the Management Team



NTTA Executive Management communicates well with each other



There is good cooperation between different Departments/Units



Performance management process for staff is well-developed, but there are material flaws in the Executive Director evaluation process

Observations

NTTA has the tools, process and technology in place and is essentially compliant relative to Performance Plans and Reviews; evidence suggests a drive toward “pay for performance” culture

ED’s contract renewal not aligned with the ED’s annual review and/or the fiscal budgeting and planning process

ED’s goals had multiple iterations and were never formally approved

ED’s evaluation criteria not fully aligned with stated goals

Mid-year reviews or formal ongoing feedback have not been provided to ED

Lack of formalized incentive plan for ED and ED direct reports to create shared accountability for Agency-wide goals and priorities

Proof Points

- E-review system capabilities, performance plans and reviews solid. 99% of Plans completed in 2011, 100% reviews completed in 2010
- 2010 ratings align with the distribution of incentive increases
- 2007 – 2010 ratings show movement from high positive skew to more normalized (see HR Metrics Report)

- ED contract term ends May 31, ED’s review occurs in August, and NTTA fiscal year ends December 31
- Lack of established business performance management calendar to tie strategic priorities, budgeting and performance management

- No copy provided of 2010-2011 approved set of goals

- ED evaluation leveraged draft goals as well as additional evaluation criteria yet these goals and evaluation criteria were never communicated and approved with the ED in advance

- Board/ED acknowledge lack of mid-year or on-going reviews with the ED

- ED contract defines discretionary bonus and no other members of management have an incentive plan

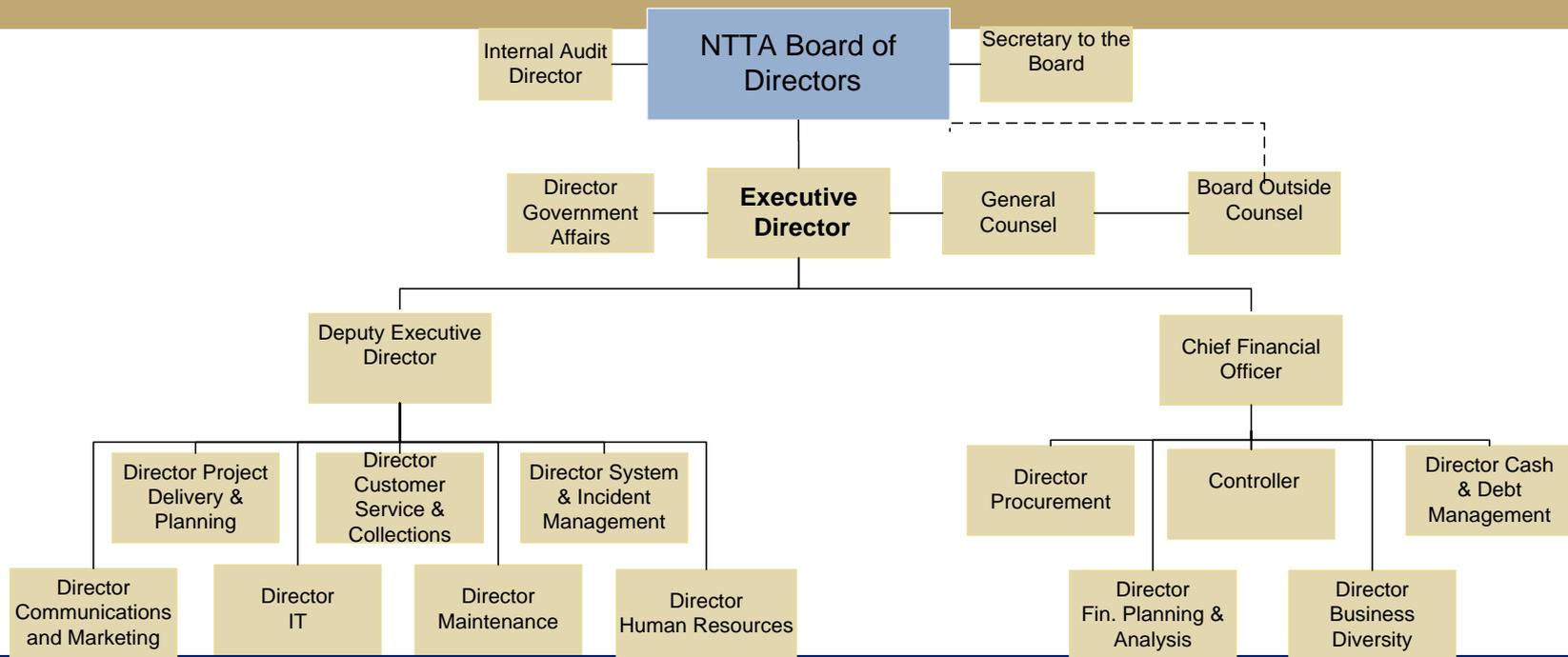
Recommendations

1. Develop and publish annual business performance management calendar to align budgeting and planning with the annual performance management cycle for management and staff. Align the ED Performance Review Process with the ED's contract renewal period
2. Leverage and build on Agency Scorecard (presented August 2011) to include core NTTA metrics (i.e. Financial, Operational Excellence, People) - metrics should be explicit, aggressive and provide detail on threshold, target and exceeding performance
3. Design and develop annual Executive Incentive Plan (EIP) for the ED and ED direct reports. ED and ED direct reports should be measured against the same approved Agency Scorecard metrics to drive greater alignment
4. Design, develop and approve ED personal goals to be ready for release with, or prior to, the communication of the approved budget annually. Goals should be prioritized and weighted and include requirements of the role/expectations of the ED
5. A minimum of a interim review against performance goals between the Board and the Executive Director should be planned each year
6. Provide annual Performance Management training on developing goals, reviewing performance and handling difficult conversations

Lack of clear direction, departmental collaboration and depth in key positions result in key organizational gaps

Observations	Proof Points
<p>Organization has been successful building and maintaining roads despite changes in organization and leadership</p>	<ul style="list-style-type: none"> • CFO organization has added key talent in past 3 years • Others appear to be stable and competent in their departmental disciplines
<p>Executive Director’s lack of building Board relationships or engaging the Board outside of formal meetings has created challenges with respect to lack of alignment and execution on key initiatives</p>	<ul style="list-style-type: none"> • No regularly scheduled meetings with individual Board members • Any contacts outside of Board meetings have been infrequent
<p>Redundant leadership in Project Delivery organization as project activity has slowed</p>	<ul style="list-style-type: none"> • AED and Director of Project Delivery is the only one-over-one reporting relationship among the senior management group
<p>Key succession gaps exist in many departments</p>	<ul style="list-style-type: none"> • Operations, Customer Service, IT, CFO, Controller, Cash and Debt Management and Procurement do not have obvious successors
<p>“Silo mentality” - Lack of coordination/collaboration between AED’s and other departments</p>	<ul style="list-style-type: none"> • Cited in Employee survey and multiple references in interview findings • Administrative services group cited as lacking “service” mentality • Operations, Project Delivery and Finance have their own reporting analysis with low consensus between groups
<p>Customer service organization has grown rapidly with all-electronic tolling, and is in a chronic short-handed position</p>	<ul style="list-style-type: none"> • Of 268 budgeted staff positions, 30 are open or filled by contractors • Service levels for average hold time and abandoned calls are below goals
<p>Customer service and collections are handled by the same employees where different skills and approach are required</p>	<ul style="list-style-type: none"> • Goals of customer service (satisfaction, fast request response) are different from collections (fast collections, enforce admin fees) • Most large organizations have these functions separated
<p>Vacancy of Deputy ED requires more operational demands on ED and competes with time spent working with the Board or external relationships</p>	<ul style="list-style-type: none"> • Internal issues require greater operational competencies, especially around collections and IT • Funding future toll projects will require close coordination and cooperation from regional transportation entities

Organization - Recommended Future State



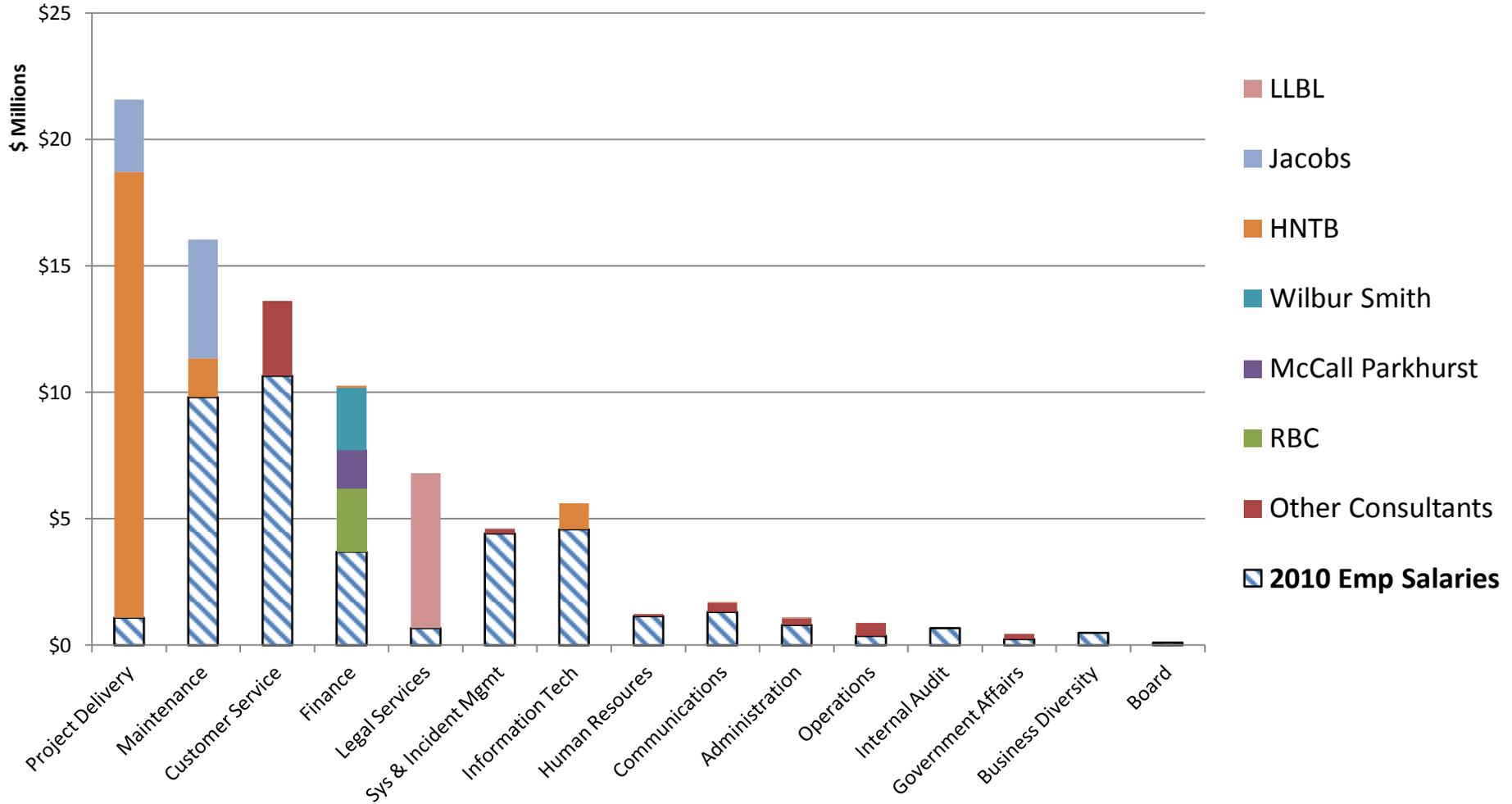
Recommendations

1. Reduce the number of direct reports to the Executive Director to include a CFO and Deputy Executive Director providing core organizational leadership, accountability for organizational decisions/direction, support cross organizational collaboration and allow ED to focus on external industry and Board relationships
2. Government Affairs and General Counsel to report to the ED and recommend that the Board outside counsel report directly to the General Counsel with indirect reporting to the Board.
3. Conduct search for a candidate to fulfill a Deputy Executive Director - preferably with operational transformation/process improvement experience within the toll industry
4. Embed diversity function into the CFO organization for alignment with procurement function
5. Create a Financial Planning and Analysis organization within CFO organization to manage the budgeting process, Agency Scorecard and metrics, reporting and analysis
6. Embed Human Resources and Communications & Marketing into Operations to drive alignment and prioritization of functional support to Operations
7. Separate customer service and collections under Director of Customer Service and Collections
8. NTTA Board should direct Executive Director to develop succession plans for key positions in the organization

The major consultants have played a large part in NTTA's success to date and are heavily relied on for critical competencies but with limited controls at times

Observations	Proof Points
Consultants have worked effectively with staff to deliver innovative solutions that have made NTTA a toll industry leader	<ul style="list-style-type: none"> • International Awards for Customer Driven Management System (2010) and Conversion to All Electronic Tolling (2011) • High driver satisfaction
Consulting business model allows for faster ramping up of subject matter experts (SMEs) as needed and ramping down as projects end	<ul style="list-style-type: none"> • Project Delivery Department forecasts ramp down of SMEs at completions of CTP & 161
Certain consultants are required as part of the bond trust agreement and cannot be eliminated	<ul style="list-style-type: none"> • GEC, Bond Counsel and Traffic & Revenue (T&R) represent approximately \$5 million of annual spend
Due to their length of service as compared to Board members and ED, consultants are relied on to provide continuity and for their deep historical knowledge	<ul style="list-style-type: none"> • HNTB (since 1953), Locke Lord (1953), RBC (1983), McCall Parkhurst (1955), Wilbur Smith (1962), and Jacobs (Carter & Burgess) (1989)
General Program Management (PMC) became a large part of the GEC contract during times of multiple projects, but there are perceived and potentially real conflicts of interest with combined GEC and PMC roles	<ul style="list-style-type: none"> • Internal Audit commented on potential lack of independence where GEC provides some budget details and then approves the overall budget • PMC invoices, while reviewed by NTTA Project Delivery director, are then approved by GEC and sent to NTTA Finance for payment often without further director review
Outside General Counsel consultant given broad latitude with NTTA, but being addressed by new Legal Services protocols and new in-house General Counsel	<ul style="list-style-type: none"> • Outside General Counsel has acted as gatekeeper for legal services with little monitoring by NTTA • Invoices have typically been delivered beyond 90 days, making review difficult
Limited controls over some consultant scope of work and work authorization	<ul style="list-style-type: none"> • Internal audit findings related to inadequate controls for time and materials contract invoices remain unresolved • Poor variance reporting between work authorization and actual invoice
Board has not articulated an official business model nor shared views on proper use of consultants	<ul style="list-style-type: none"> • Several Board presentations since Oct 2010 including a Business Model proposal on April 7, 2011. No approval and not on Board agenda since Board had committed to working with ED to do this

Employee and Major Consultant Cost by Function 2010



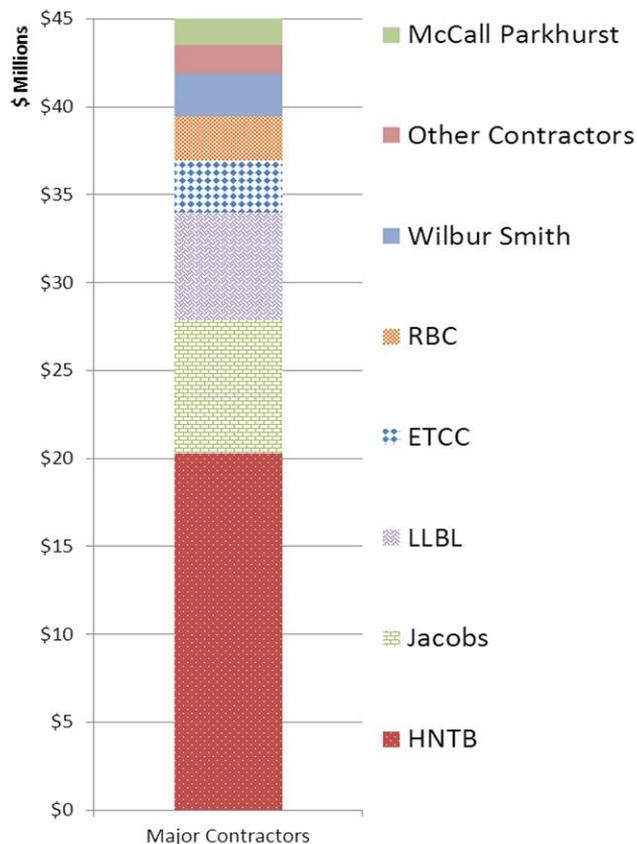
Note: Includes Salary and Consultant Expenses from All Funds and excludes discontinued Toll Collections and Vault Services

Source: NTTA Accounts Payable 2010 and Budget Summary

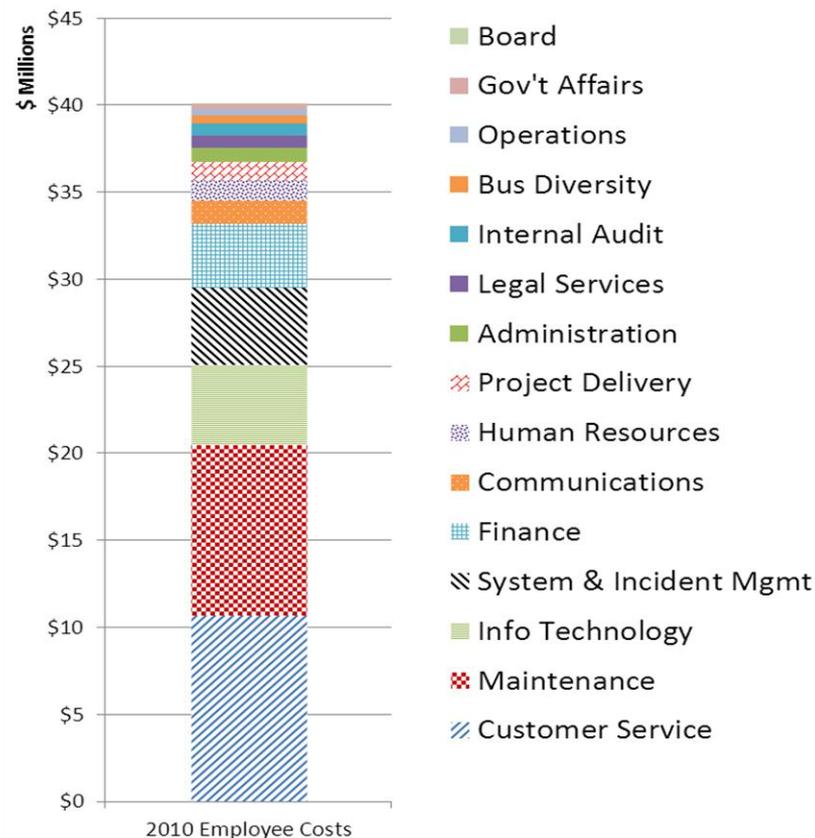
Consultant Spend vs. Employee Costs

- Excludes discontinued Toll Collections and Vault Services
- Employee costs are salaries plus benefits

Total Major Consultants 2010



Total Employee Costs 2010



Source: Accounts Payable (2010 Contractors) and Accounting (2010 Employee Costs)

Proposed business model for consultant usage was not adopted by Board

- Business model presented by Executive Director to Board without approval in April 2011
- Maintenance and IT departments brought some staff augmentation roles in-house
- Project Delivery is considering doing similar analysis and may bring some roles in-house

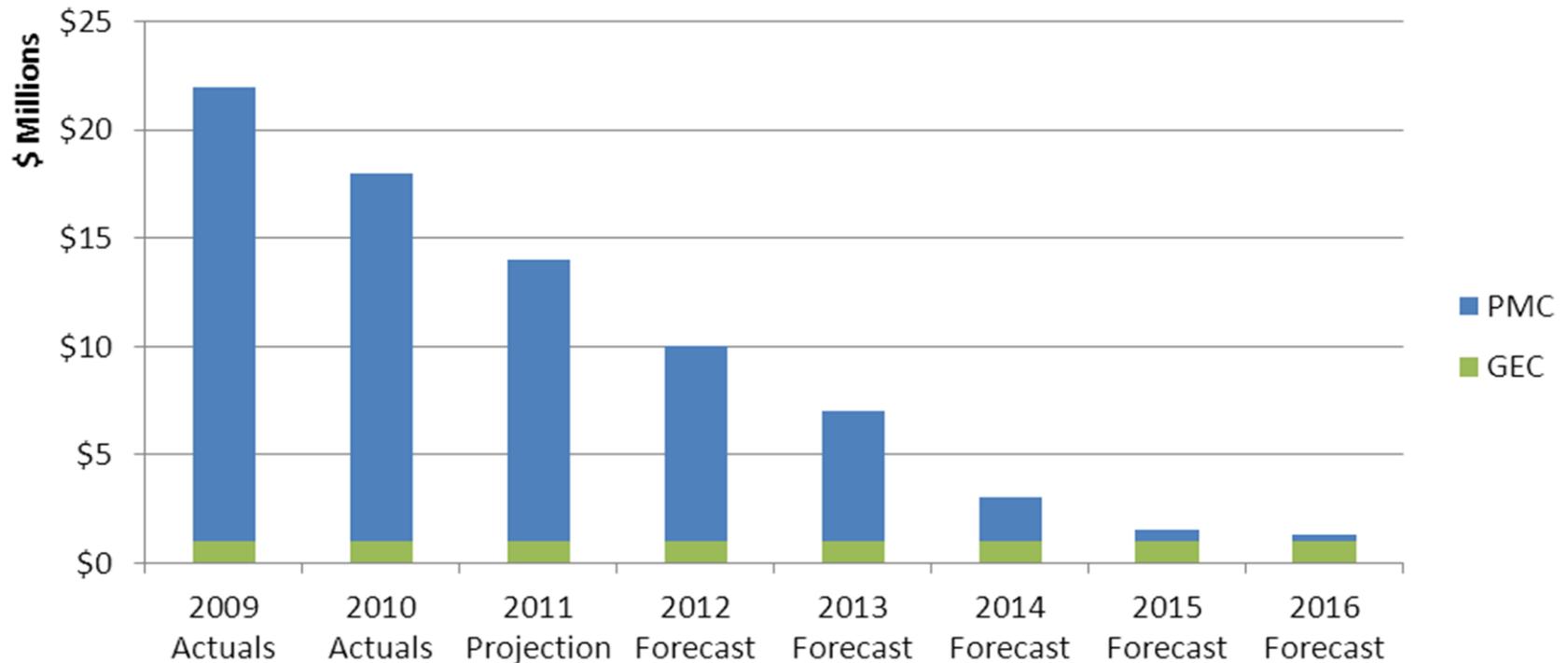
Allen Clemson's proposed criteria for determining in-house staff and consulting/staff augmentation:

In-House	Consulting	Staff Augmentation
<ul style="list-style-type: none"> • Essential , day-to-day core activities • Typically a management or supervisory activity that is responsible for schedule, time and budget • Responsible for primary interaction with stakeholders and /or customers • Enhance cost efficiencies • Not limited in duration (ongoing functions) • Maintain or responsible for secure information <ul style="list-style-type: none"> - Reviewing pay applications - Contract payments 	<ul style="list-style-type: none"> • Specialized or project -specific experience , education or skill set • Pilot program • Work load peak (limited in duration) • Time constrained (not long term) • Controlled or limited interaction with stakeholders and /or customers • No management responsibilities over NTTA staff (may manage consultants) • Transfer risk or liability • Third-party – independent validation 	<ul style="list-style-type: none"> • Specialized or project -specific experience , education or skill set • Work load peak (limited in duration) • Interaction with stakeholders and customers

Source: Clemson Presentation April 7, 2011

- HNTB has been GEC since 1953. PMC activities added during rapid building phase in 2007-2008
- GEC mandated by Trust Agreement and remains roughly constant at \$1 million per year
- PMC, managed by Project Delivery Department, is forecasted to ramp down with the conclusion of CTP

GEC/PMC Spend 2009 - 2016



Source: Carrigan presentation July 2011 and Mow forecast updates August 2011

GEC/PMC Consultant FTE Projections

RESOURCE	FUNCTION	2011	2012	2013	2014	2015	2016
Administrative	Procurement/ Contracts	2	1	1	1	1	0
Administrative	Invoices	2	1	1	0	0	0
Professional	Quality	1	1	1	0	0	0
Administrative	Document Control	1	1	1	0	0	0
Professional	Schedule	2	2	1	1	1	1
Engineer	Environmental Documents	2	2	1	1	1	1
Engineer	Schematic	1	1	0	0	0	0
Professional	Environmental Compliance	2	2	2	1	1	1
Engineer	Standards/ Specifications	1	1	1	0	0	0
Engineer	Geometry	3	3	2	1	0	0
Engineer	ROW	1	1	0	0	0	0
Professional	Visual Quality and inspection	10	9	8	3	1	1
Professional	Public Involvement	4	4	4	2	0	0
Engineer	Cost	5	3	1	1	1	1
Engineer	Construction	2	3	3	2	0	0
Engineer	Project Management	8	5	3	1	1	1
TOTAL		47	40	30	14	7	6

NOTE: GEC is 4-6 FTEs per year (some are part-time and not included above)

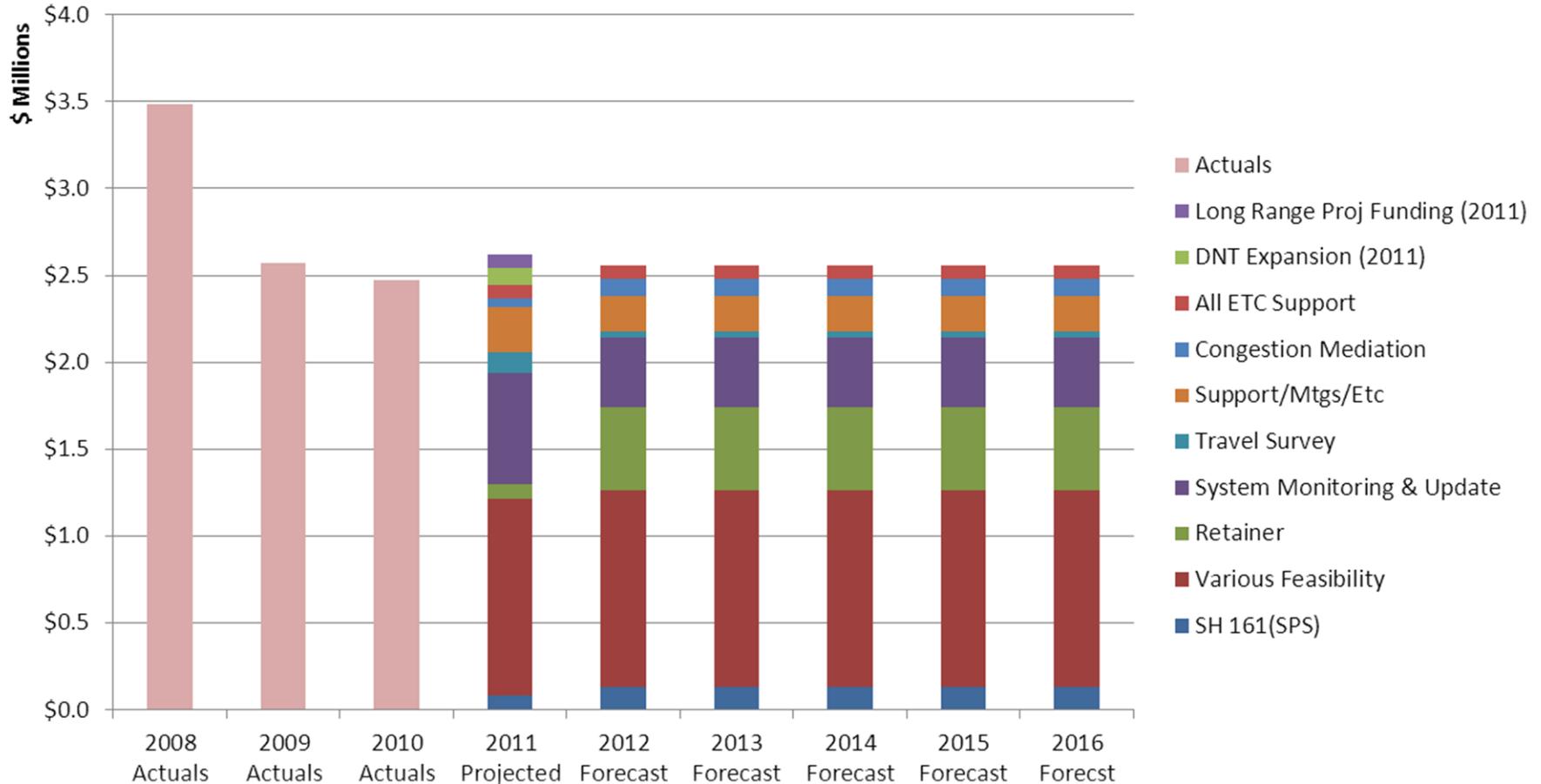
Source: Project Delivery forecast , August 2011

- In 2009, Internal Audit pointed out a potential lack of independence of GEC in making budgetary decisions. The GEC provides budget detail and also approves the overall budget
- An example of a conflict of interest is that the GEC signs off on its own invoices: Director of Project Delivery approves the invoice, then HNTB approves it, and finally the Finance Department processes it for payment but would not know if there are changes made by HNTB
- Proposal to split PMC and GEC in 2010 and the Board agreed to go forward with a separate PMC procurement
- Board votes to not split GEC and PMC contracts in August 2011
- Staff is to propose to the Board whether to re-procure GEC/PMC or extend the HNTB contract through the end of CTP / SH 161 construction in 2014

Traffic and Revenue (T&R) Consultant Spend

- Wilbur Smith has been T&R consultant since 1962
- T&R studies are mandated by Trust Agreement for existing and proposed toll roads

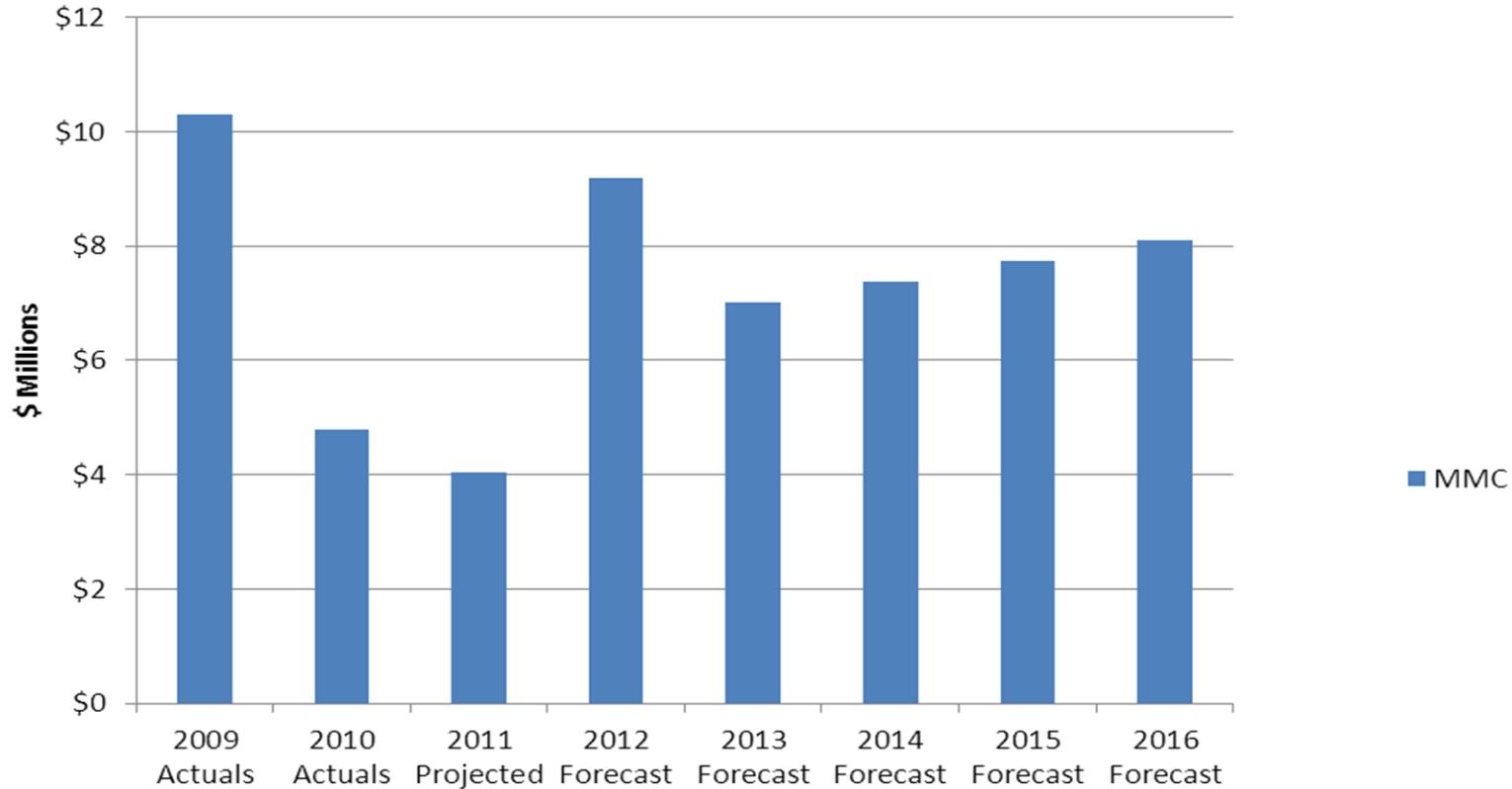
T&R Spend 2008 - 2016



Source: Accounts Payable 2008 - 2010 and Allen Clemson Forecast 2011 - 2016

- Jacobs (through Carter & Burgess) was first selected by NTTA in 1989

MMC Spend 2008 - 2016



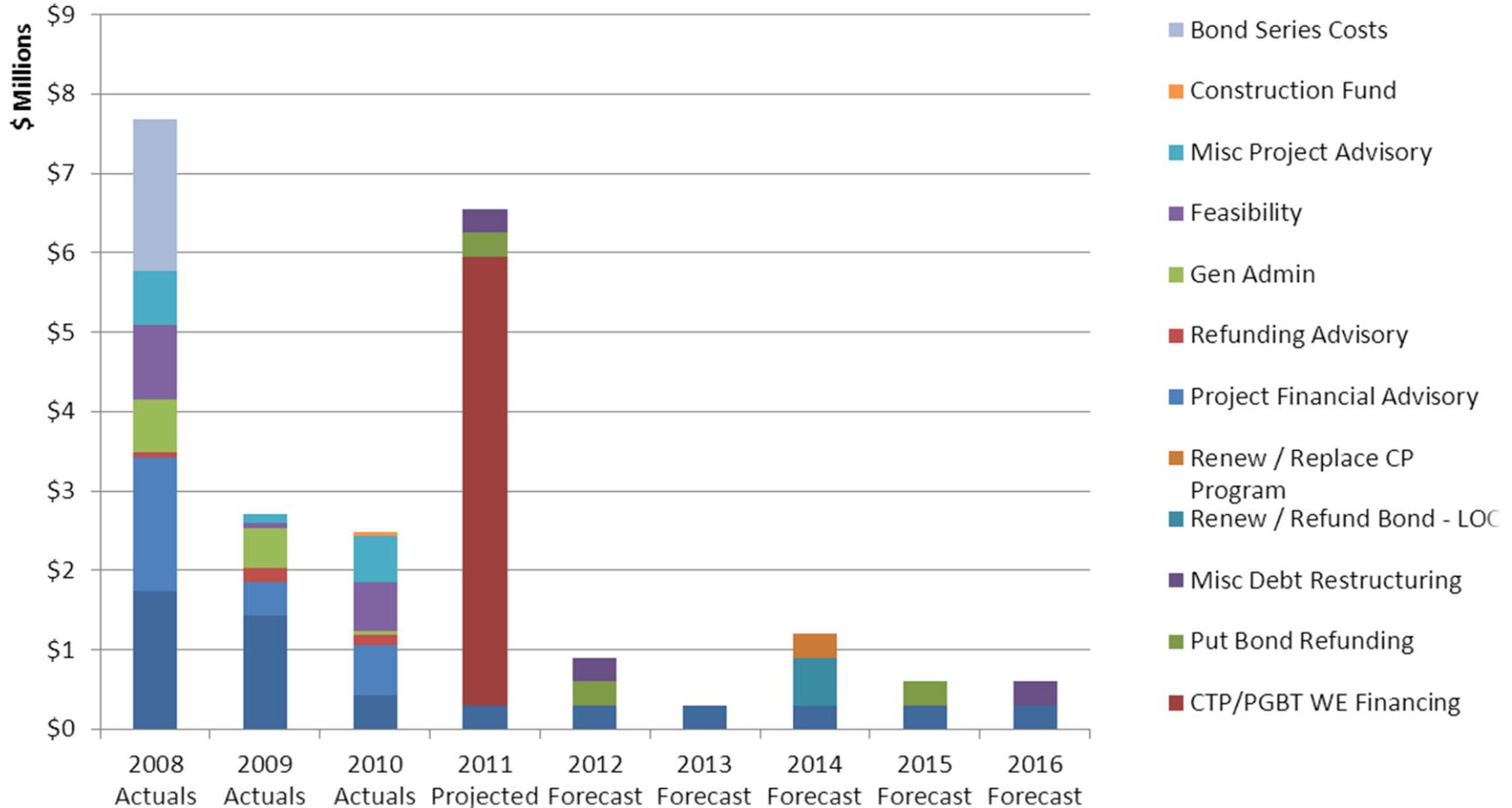
Note: Jacobs billings for MMC only

Source: Jacobs 2009 - 2010 and Allen Clemson Forecast 2011 - 2016

Financial Advisor Consultant Spend

- RBC has been NTTA's Financial Advisor since 1983

Financial Advisor Spend 2008 - 2016

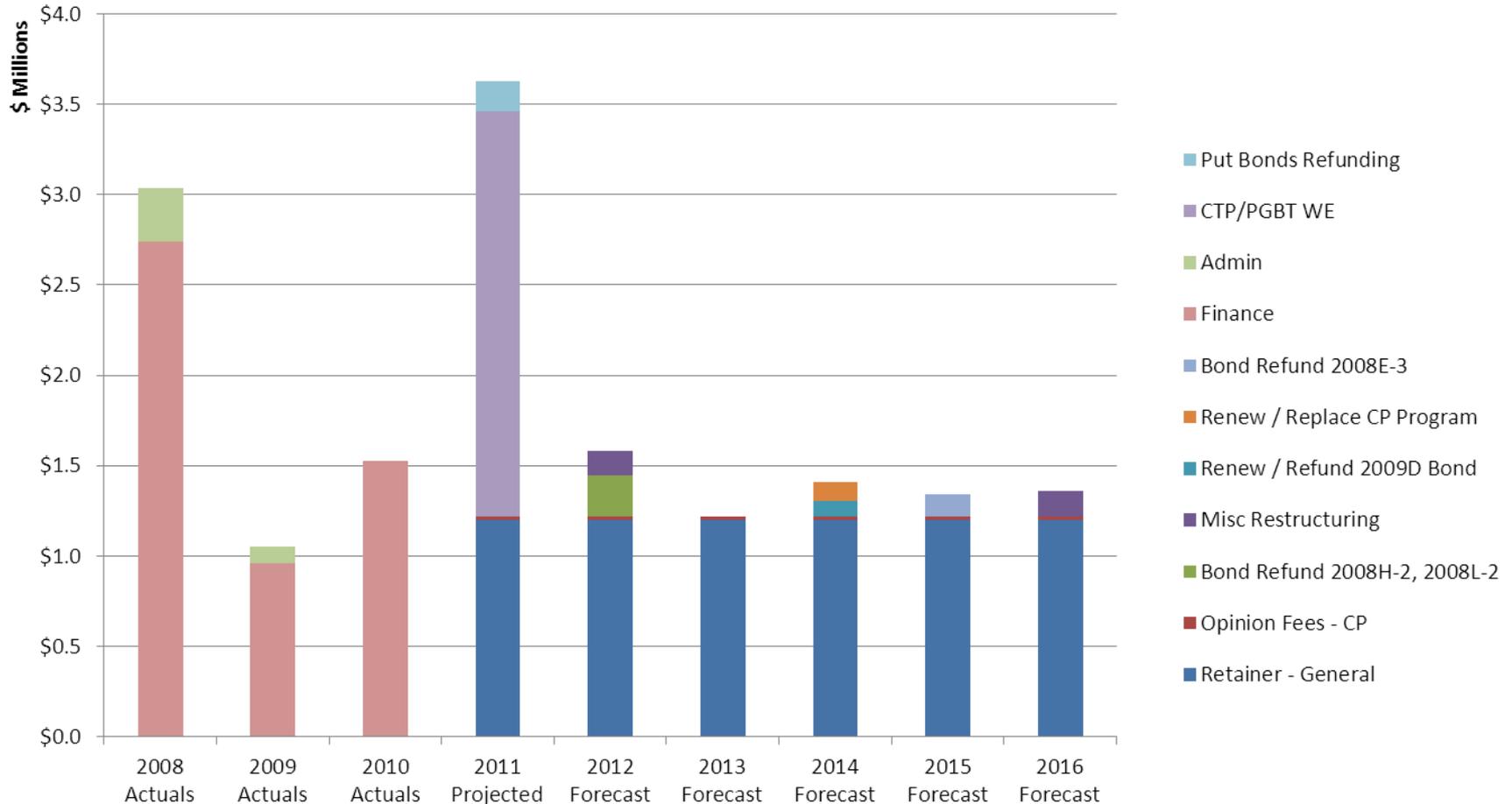


Source: Accounts Payable 2008 - 2010 and Allen Clemson Forecast 2011 - 2016

Bond Counsel Consultant Spend

- McCall Parkhurst & Horton has been Bond Counsel since 1955

Bond Counsel Spend 2008 - 2016

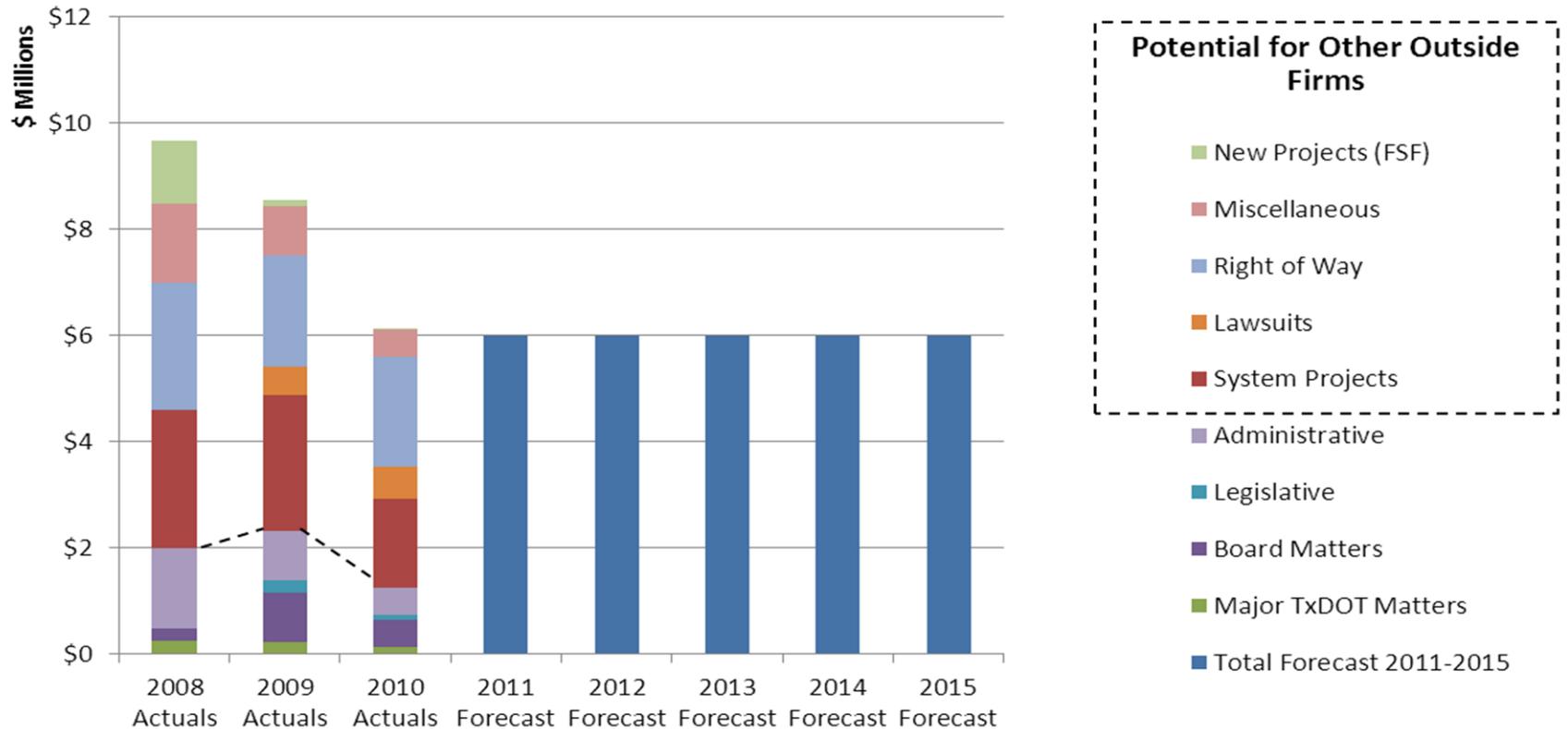


Source: Accounts Payable 2008 - 2010 and Allen Clemson Forecast 2011 - 2016

Legal Services Consultant Spend

- Locke Lord Bissell & Liddell has been outside legal counsel since 1953
- Frank Stevenson has served NTTA since 1980

Legal Services Spend 2008 - 2015



Source: Accounts Payable 2008 - 2010 and Allen Clemson Forecast 2011 - 2015

Newly-Adopted Legal Services Proposal

- In August 2011, the Board adopted a new protocol that dictates responsibility for various kinds of legal work between Board Counsel, in-house General Counsel, and other outside legal firms. Tighter billing controls and oversight were also adopted
- The in-house General Counsel is to play an active role in directing and overseeing all legal work

Legal Services Proposal

Board Counsel	General Counsel	Outside Legal Services	Legal Service Committee
<ul style="list-style-type: none"> • Primary responsibility for advice and counsel to the Board • Parliamentarian • Legislative matters • General regulatory matters • General TxDOT matters • Bylaw revisions • Special assignments from the Board 	<ul style="list-style-type: none"> • Board's chief administrative officer for all legal services including day-to-day oversight of internal and external legal work • Advice and counsel to NTTA managers and executives • Timely and accurate file management of all legal work • Cost/benefit management advice to Legal Services Committee and Board • Review of all billings for legal services • Special assignments from the Board 	<ul style="list-style-type: none"> • Right of way acquisition • Complex open records requests • Litigation • Employment law • Environmental matters • Utility-related issues • Inter-agency agreements • Other matters at the discretion of the Board 	<ul style="list-style-type: none"> • Recommend to the Board a Legal Services Plan as the basic outline for the handling of legal work • Make recommendations to the Board on the distribution of legal work • Monitor and report to the Board on all aspects of NTTA legal matters • Monitor and report to the Board on collaboration between attorneys • Other responsibilities as assigned by the Board

Source: Legal Services Committee August 2011

- Bill by 1/10th of an hour
- Itemize time entries by each task
- Charge only actual costs of copies, faxes, delivery/courier charges
- All travel and expense reimbursement to be consistent with NTTA Travel and Business Expense Policy
- Obtain authorization for more than one lawyer per firm to attend a witness interview, deposition, trial
- Not bill the NTTA for electronic legal research resources (i.e. Lexis or Westlaw)
- Use or employ expert witnesses or outside consultants only after written approval of the NTTA General Counsel
- Outside expenditures greater than \$5,000 require pre-approval in writing from the NTTA General Counsel
- Not bill the NTTA for opening/updating/closing files
- Submit invoices and update status of assigned matters using an electronic format acceptable to the NTTA
- Submit invoices no later than 30 days after the end of the billing period
- Use courier services only when necessary
- Billings for communications between attorneys within the firm will be kept to a minimum
- Business meals will be kept to a minimum and, when they occur, expenses must be consistent with the NTTA Travel and Business Expense Policy
- When subcontracted counsel is retained for a matter, the managing outside counsel will provide only general oversight and billing will be kept to a minimum
- Either party may terminate the contract by providing the other party at least 30 days notice

Source: Legal Services Committee August 2011

Recommendations

1. Retain “lean” staff Business Model, but ensure critical core competencies exist in-house if there is a permanent need (Florida Turnpike model)
 - Based on forecasted demand through 2016, consider bringing a limited number of PMC and Legal resources in-house
 - Consider greater outsourcing of customer service and collections if it is more cost effective and flexible to varying levels of need
2. Institute more defined roles and accountability, such as controls and monitoring of actual work expenses vs. work authorization (i.e. budget)
3. Ensure new Legal Services protocols are monitored and enforced, and provide clarification of what work falls under broad categories such as “General TxDOT Matters” and “under appropriate circumstances”
4. Build internal competency of legal services with new in-house General Counsel and reduce reliance on individual, third-party expertise
5. New in-house GC to review Legal Services protocols and propose any changes to the Board within 6 months
6. Split PMC and GEC contracts and re-procure under new procurement process to separate engineering firms taking care to have a strong transition plan if needed

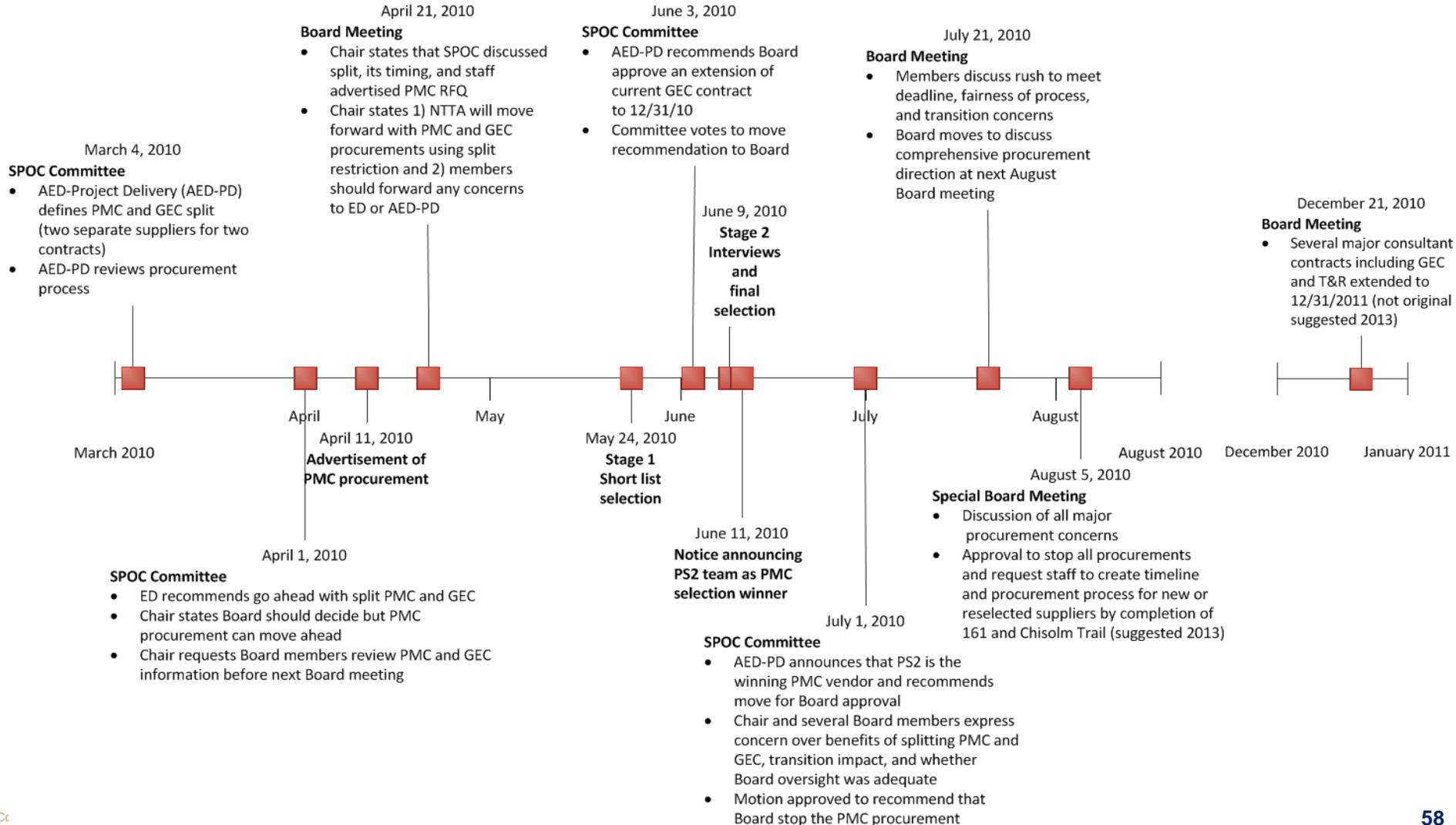
- **Major Consultants**
- **General Procurement**
- **Supplier Diversity**

After the poorly handled 2010 major consultant procurement process, NTTA staff has developed an improved process that has not yet been finalized by the Board

Observations	Proof Points
<p>The 2010 major consultant procurement process was poorly handled</p>	<ul style="list-style-type: none"> • Some Board members <ul style="list-style-type: none"> – Did not trust staff’s procurement process – Did not provide sufficient upfront guidance on RFQs, selection process, and scoring criteria – Lacked sufficient knowledge regarding NTTA procurement policy and procedures and consultant transition plan – Discussed procurements with involved consultants before Board final approval • Some staff <ul style="list-style-type: none"> – On evaluation teams lacked necessary expertise for the procurement – Did not thoroughly investigate credentials of all proposers • The procurement process allowed <ul style="list-style-type: none"> – Simultaneous procurements to be conducted instead of staggering them during a busy time period – Program Management Consultant (PMC) and Traffic and Revenue (T&R) procurement “winners” to be made public before Board approval – Board committees to not be utilized on behalf of the full Board to research and confirm selection – An Executive Committee of observers that stifled what would have been a more open and robust selection process – Disagreement regarding how diversity should be scored – A lack of clarity to some participants and bidders on whether to follow NTTA’s Quality Management System (QMS) or official procurement policy and procedures
<p>Key improvements have been proposed by the new Director of Procurement but not formally adopted by the Board</p>	<ul style="list-style-type: none"> • Board approval of RFQ, selection process and scoring criteria • Staggered procurements • Separation of GEC and PMC contracts
<p>There is one key weakness to the proposed process</p>	<ul style="list-style-type: none"> • Proposed Board involvement in evaluating and finalizing the candidate short list may lead to potential ethics issues, inconsistent application of selection criteria, and appearance of distrust in staff

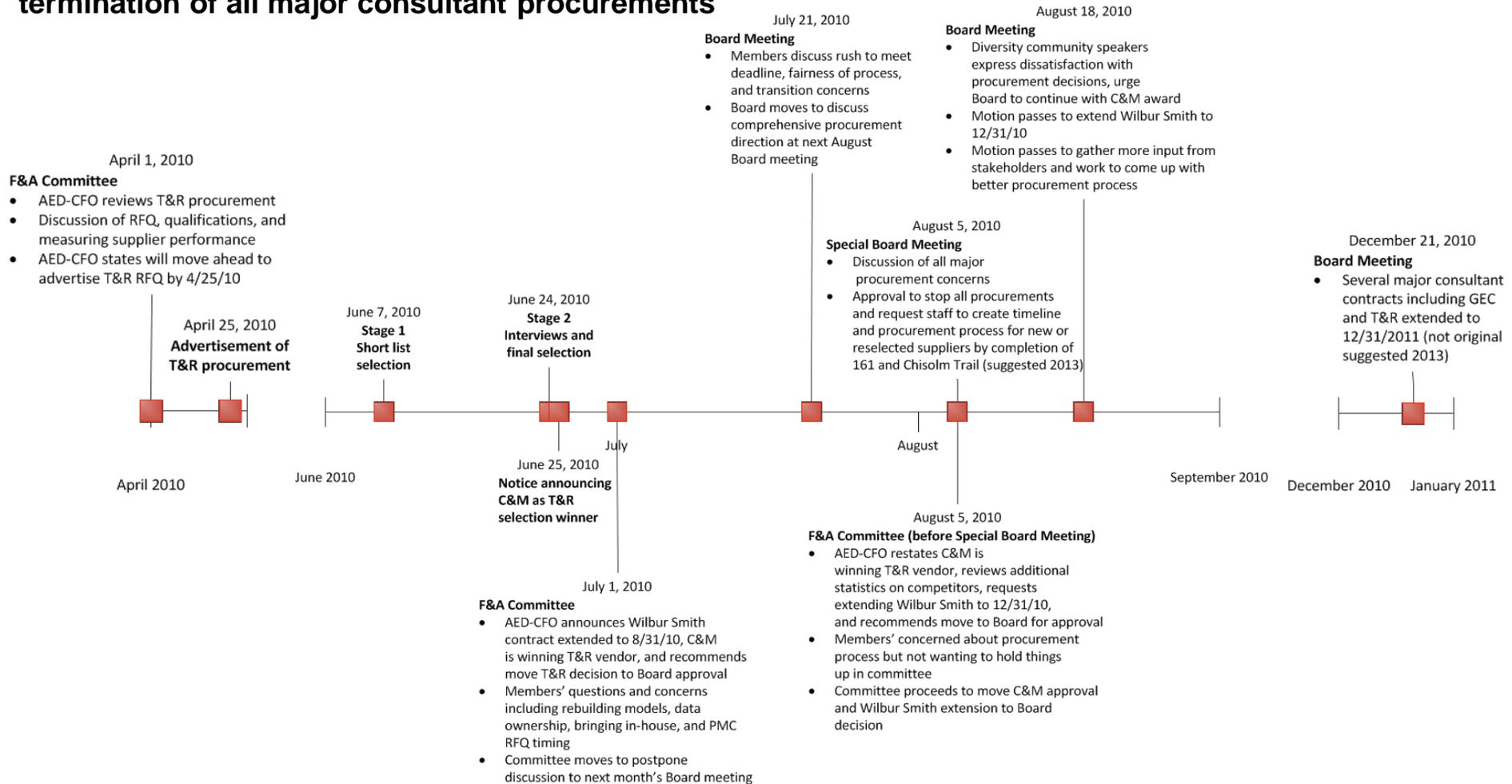
Timeline for 2010 PMC Procurement Process

Timeline of staff and Board actions leading up to the pullback of the 2010 PMC contract award and termination of all major consultant procurements



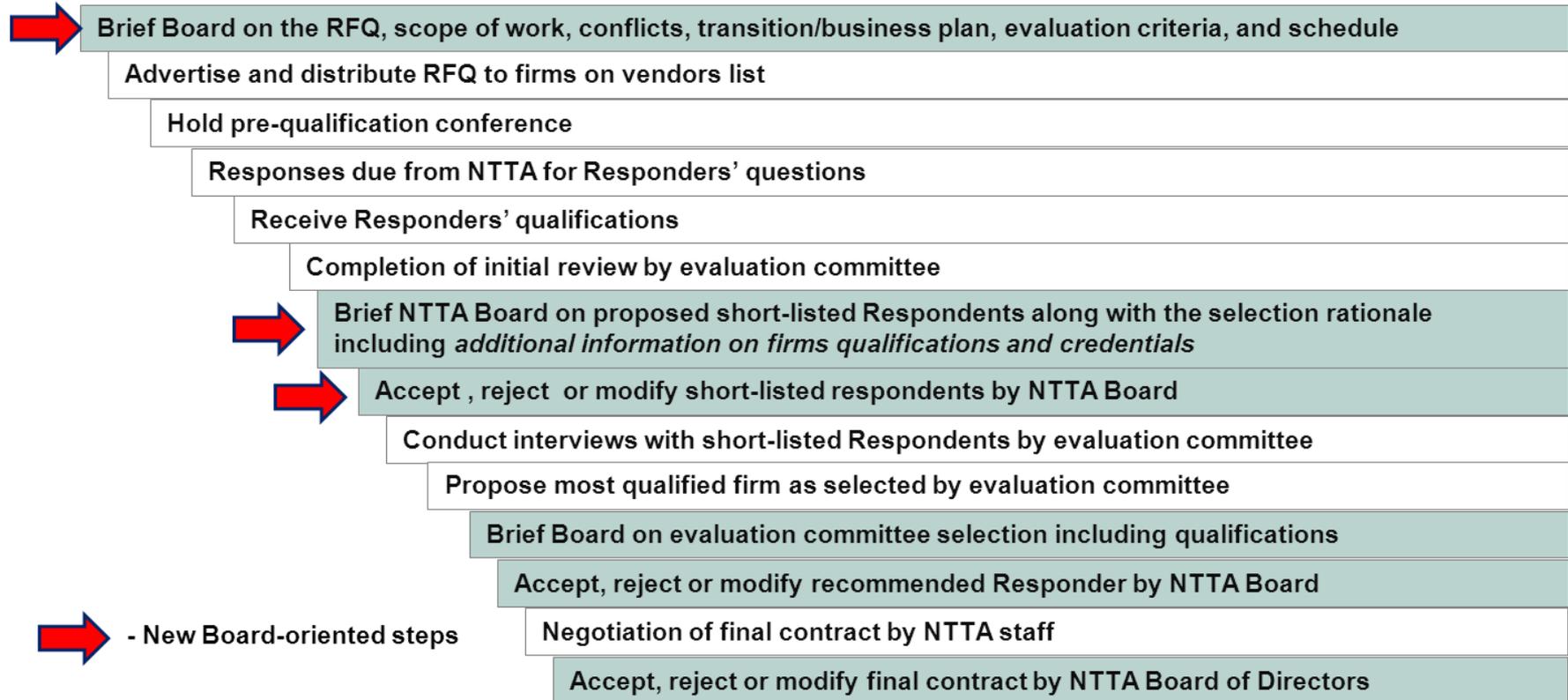
Timeline for 2010 T&R Procurement Process

Timeline of staff and Board actions leading up to the pullback of the 2010 T&R contract award and termination of all major consultant procurements



In Summer 2011, Procurement Services Department (PSD) worked with the Board to develop the following proposed process (not yet approved by Board)

Revised Major Procurement Process



Source: July 21, 2011 Board Meeting Procurement Presentation ("Revised Go Forward Plan")

Recommendations

1. Establish and enforce clear procurement policy and procedures including
 - Strict clarification of permissible consultant, staff, and Board communications with clear understanding of the beginning and the end of procurement period
 - Whether QMS or another procedure is in force
2. Limit Board involvement in major consultant procurements to review and approval of
 - Pre-advertisement RFQ, selection process, and scoring criteria
 - Staff's final recommendation
 - Final contract
3. Eliminate Executive Committee observers in the evaluation process to allow for sufficient discussion
4. Reassess bid evaluation committee composition based on pertinent knowledge and/or skills
5. Strengthen due diligence around vendor background and credentials
6. Clearly communicate diversity scoring criteria among all participants
7. Do not announce competitive procurement winners prior to Board approval
8. Prior to procurement decisions, request analysis by appropriate Board committee and have committee report conclusions to the full Board
9. Include stronger transition plan vetting with Board
10. Stagger procurements as needed so each may be addressed with appropriate time and effort

Procurement Services Department's (PSD) new direction to strengthen effectiveness of the procurement process and compliance with updated policy and procedures is solid

Observations	Proof Points
<p>The recently-hired Director of PSD brings more sophisticated purchasing practices and vision</p>	<ul style="list-style-type: none"> • Sole source approval procedure changed in August 2011, survey of PSD performance, and elimination of unofficial P-cards • Plans for or already making progress towards <ul style="list-style-type: none"> – PSD requisition reviews prior to procurement and/or contract processing – Procurement policy and procedures rewrite – Standardized contract templates – Complete procurement system upgrade – PSD reorganization
<p>The current NTTA procurement policy and procedure complies satisfactorily with Texas State Law</p>	<ul style="list-style-type: none"> • Review of the ten chapters of applicable Texas State Law and procurement policy and procedure confirms compliance • Review with Assistant General Counsel and new Director of Procurement
<p>Decentralized procurement model results in inconsistent application of procurement policy, procedures, and best practices</p>	<ul style="list-style-type: none"> • Some requisitioning tasks fulfilled outside of PSD where policy and procedural compliance can't be confirmed • Outdated policy and procedures out-of-step with current document flow • Misapplication of the "30%" rule requiring Board approval for certain contract change orders, supplemental agreements, or amendments • No clear non-construction procurement closeout or short list process documented in policy or procedures • Missing key reporting processes such as spend management, benchmarks, workload reporting, and sourcing cycle time ("need-to-receipt")

Procurement Services Department's (PSD) new direction to strengthen effectiveness of the procurement process and compliance with updated policy and procedures is solid

Observations	Proof Points
Prior to the new sole source procedure, some sole source procurements have lacked proper approval and/or satisfactory quality control	<ul style="list-style-type: none">• Some sole source purchases have been approved at the Director level but lacked communication to the Board per policy• NTTA has been criticized for procuring services in the 2008 – 2009 timeframe on a "no bid" or sole sourced basis without satisfactory approval and deliverable quality control
Procurement team capability needs strengthening to better support organization's needs	<ul style="list-style-type: none">• Reports of different answers to same question from different PSD team members• PSD has handled differing procurements the same when they should not be• PSD performance survey indicated PSD team lacking knowledge, not providing adequate training

New Director of the PSD, brings more sophisticated purchasing practices and vision

- Trained, certified, and effective in previous position at San Antonio Independent School District
 - Delivered high levels of cost savings through pricing and contract reviews
- Actions taken to improve procurement process
 - Eliminated non-official NTTA credit cards
 - Implemented changes around sole-sourcing
 - Instituted customer survey
- Actions underway
 - All goods and services requisitions will be reviewed by PSD before triggering purchase order (PO) and contracts processes
 - Implement standardized contract templates
 - Increase competitive bidding threshold per Texas State Law
- Plan in progress to increase the effectiveness of PSD
 - 2011: Finish new PeopleSoft contracts module implementation, update old NTTA procurement policy
 - 2012: Rewrite procurement procedure
 - Keys to transformational agenda
 - Develop goals and mission
 - Reorganize PSD for greater efficiency (e.g. merge Buyer Bid Specialists with Contract Specialists)
 - Involve PSD more deeply in key procurement activities upfront

NTTA Procurement policy and procedure fairly reflect relevant Texas State Law chapters – No recommendation or action necessary

- Review covered ten chapters of applicable Texas State Law
 - TRANSPORTATION CODE CHAPTER 366_ REGIONAL TOLLWAY AUTHORITIES
 - TRANSPORTATION CODE CHAPTER 452_ REGIONAL TRANSPORTATION AUTHORITIES
 - GOVERNMENT CODE CHAPTER 2254_ PROFESSIONAL AND CONSULTING SERVICES
 - LOCAL GOVERNMENT CODE CHAPTER 262_ PURCHASING AND CONTRACTING AUTHORITY OF COUNTIES
 - LOCAL GOVERNMENT CODE CHAPTER 263_ SALE OR LEASE OF PROPERTY BY COUNTIES
 - LOCAL GOVERNMENT CODE CHAPTER 270_ MISCE PROVISIONS AFFECTING THE ACQ, SALE, OR LEASE OF PROPERTY BY COUNTIES
 - LOCAL GOVERNMENT CODE CHAPTER 271_ PURCHASING AND CONTRACTING AUTHORITY OF MUNICIPALITIES, COUNTIES, AND CERTAIN OTHER LOCAL GOVERNMENTS
 - LOCAL GOVERNMENT CODE CHAPTER 272_ SALE OR LEASE OF PROPERTY BY MUNICIPALITIES, COUNTIES, AND CERTAIN OTHER LOCAL GOVERNMENTS
 - LOCAL GOVERNMENT CODE CHAPTER 273_ ACQUIS OF PROPERTY FOR PUBLIC PURPOSES BY MUNIS, COUNTIES, AND OTHER LOCAL GOVS
 - LOCAL GOVERNMENT CODE CHAPTER 280_ MISCELLANEOUS PROVISIONS AFFECTING ACQUISITION, SALE, OR LEASE OF PROPERTY BY MUNICIPALITIES AND COUNTIES
- Policy and procedure were reviewed to determine any direct conflict with State Law
- State Law chapters were reviewed to ensure proper inclusion in policy and/or procedure
- Analysis Review with NTTA – The analysis was reviewed with NTTA Assistant General Counsel and Director of Purchasing Services

For “everyday” purchasing, the decentralized procurement model results in inconsistent application of procurement policies, procedures, and best practices

- Some requisitioning tasks fulfilled outside of PSD where policy and procedural compliance can't be confirmed
- Need for an updated, approved, and communicated policy and procedure documentation (being addressed)
 - Current policy and procedure, last updated 2004, does not reference current procedural checklists, forms, key reporting such as benchmarks, and other documents
- “30% rule” (increases to procurements greater than 30% of original value must be Board approved) has been inconsistently applied, partly because too many small procurements would need Board approval
- Some sole source purchases have been approved at the Director level but lacked communication to the Board per policy (new procedure clarified August 3, 2011)
- NTTA has been criticized for procuring services in the 2008 – 2009 timeframe on a "no bid" or sole sourced basis without satisfactory approval and deliverable quality control
- No policy or procedure clarifying non-construction procurement closeout process and documentation (e.g. vendor satisfaction evaluation, final diversity supplier documentation completion, actuals vs. budget comparison)
- No policy or procedure clarifying short list interview process
 - Meeting Rules form guides short list interviews but form is not mentioned in policy or procedure
- Key reporting processes such as spend management, benchmarks, workload reporting, and sourcing cycle time are missing

Some department directors complain that PSD lacks necessary business and procurement skills to provide adequate procurement support

- Different team members provide different answers to the same question
- Major department reports that PSD seems to handle different types of procurement the same when they are not
- Late payments are seen as due to inadequate system setup or inefficient manual processing in PSD
- Recent Procurement Customer Service Survey indicated PSD team lacking knowledge and providing inadequate training (20 respondents)

Recommendations

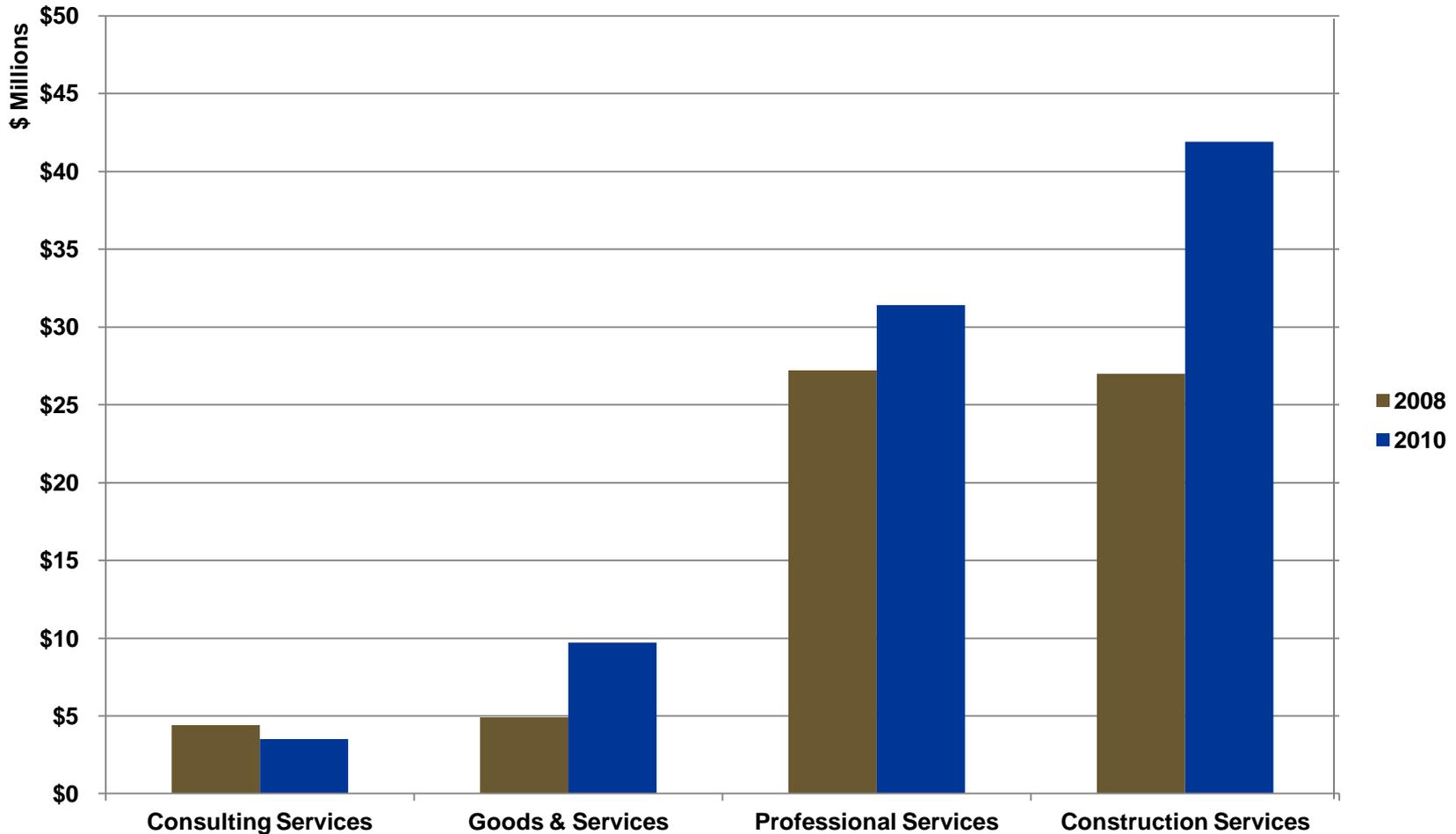
1. For all procurements, increase PSD involvement in requisition and purchase order processing prior to department's soliciting quotes, contracting, and receiving goods/services
2. Establish and enforce clear procurement policy and procedures including references to appropriate forms, handling of the 30% rule Board approval (through Board consent agenda), short list process, and non-construction closeout
3. For sole sourced contracts, stringently enforce the new policy and institute a more thorough review of deliverables
4. Implement more robust reporting processes to allow workload and performance management
5. Identify staff skills needed, set up procurement certification plans, and train staff including partnering with departments for construction business skills

The NTTA and its Business Diversity Department (BDD) have made significant improvements in recent years at increasing minority involvement

Observations	Proof Points
<p>BDD complies adequately with their own policy and procedures</p>	<ul style="list-style-type: none"> • Consistent reporting to the NTTA Board • Outreach activities take place regularly • Overall and contract goal setting processes in place • Ongoing monitoring of diversity goal achievement for prime and subcontractors
<p>NTTA's BDD has expanded its efforts across multiple community businesses and organizations</p>	<ul style="list-style-type: none"> • Convened 20+ monthly "Business Chats", reaching 250+ prospective vendors • Conducted eight Vendor Outreach Symposiums across four member counties, reaching over 800 vendors • Implemented and distributed new Business Diversity Department marketing brochure to more than 15 regional industry and advocacy organizations • Expanded involvement with regional industry and minority advocacy organizations • Expanded Relationships and Opportunities Advancing Diversity (ROAD) Program with continuing education program • Executive Staff is supportive of these activities and participates in them • Implemented new Diversity Policy and Contractors Compliance Handbook
<p>Significant progress has been made to increase diversity involvement at the NTTA</p>	<ul style="list-style-type: none"> • Increased number of diversity subcontractors becoming primes to 27 vs. Q2 2011 goal of 21 • Registered a total of 1,160 D/M/WBEs in the vendor database vs. Q2 2011 goal of 1,138 • Year-to-date, NTTA D/M/WBE diversity spend increased in most procurement categories from 2008 - 2011, climbing from 15% to 19% of total NTTA spend • New PRISM software will allow greater supplier diversity activity monitoring and goal compliance tracking • Most major consultants have consistently met their diversity goals or demonstrated good faith efforts
<p>Despite their compliance and supplier diversity achievements, some issues remain</p>	<ul style="list-style-type: none"> • The BDD has never been audited by NTTA's Internal Audit Department • BDD is challenged in obtaining peer-based supplier diversity benchmark measures • BDD policy and procedure does not define the discovering and, if necessary, escalating cases of supplier diversity non-compliance, fraud, and/or abuse

Business Diversity Department's (BDD) Steady Progress

NTTA diversity spend has increased in dollar terms in almost all categories over two years, an overall increase of 36% (from \$63.6 million to \$87 million between 2008 and 2010)



Major Consultants Minority Firm Usage

Major Consultant	Diversity Goal	2008	2009	2010	Contract-to-Date (as of Aug. 2011)
HNTB	25%	25%	25%	31%	23%
Jacobs	25%	6%	17%	26%	26%
Locke Lord **	25%	18%	10%	3%***	9%
McCall Parkhurst	Good Faith Effort*	40%	32%	12%	27%
RBC	Good Faith Effort*	13%	11%	14%	13%
Wilbur Smith	Good Faith Effort*	28%	13%	15%	19%

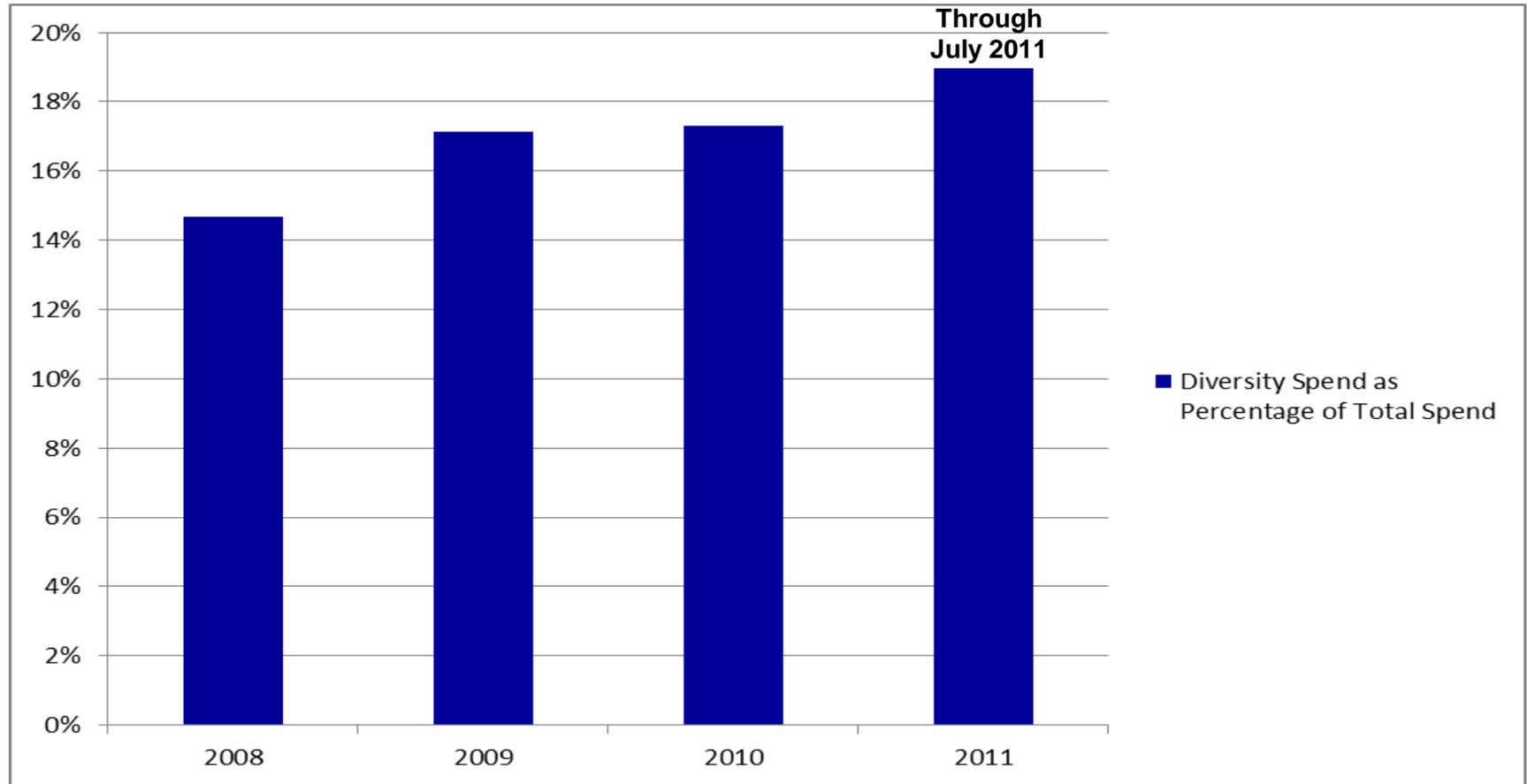
*"Good Faith Effort" contracts with no set diversity goal

**Locke Lord's percent is calculated excluding pass through expenses

***Locke Lord selected minority subcontractors through 2009. Beginning 2010, Locke Lord believed that NTTA was to select minority subcontractors themselves

Source: NTTA Accounts Payable, Business Diversity, Locke Lord Bissell & Liddell

NTTA's D/M/WBE diversity spend has continued to grow as a percentage of total spend since 2008



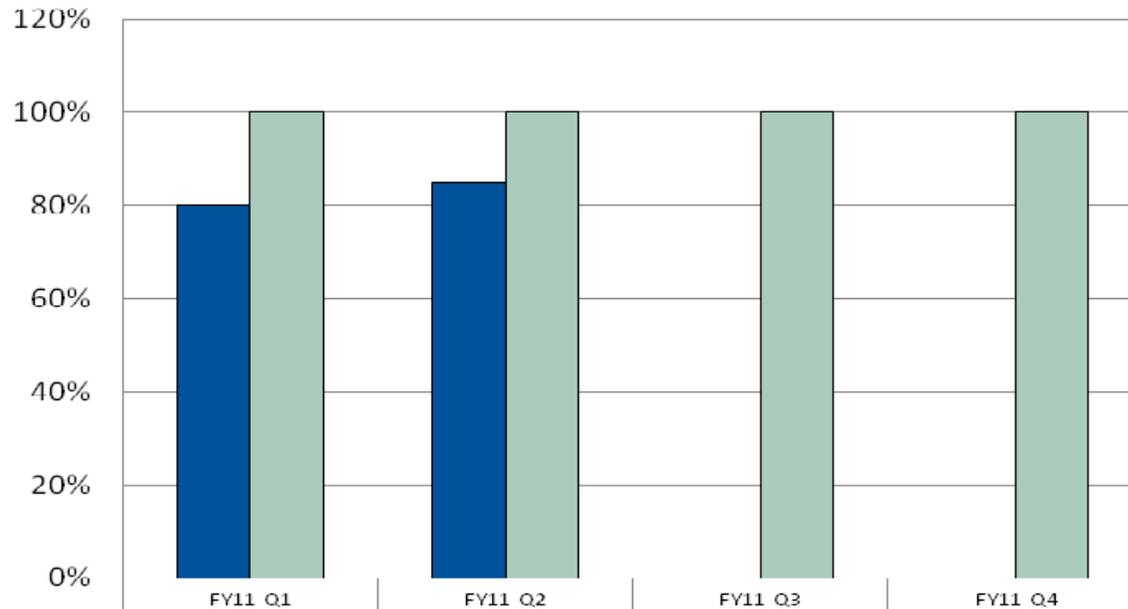
Source: 2011 Business Diversity Accomplishments Report

NTTA's D/M/WBE commitments are at 85% for 2nd Qtr 2011 against a 100% goal; however contracts meeting goals are often updated towards contract end

Percent of Active Contracts (>80% complete) meeting D/M/WBE participation goals

Objective: maintain a target of 100% percent annually

% Active Contracts (>80% complete) meeting D/M/WBE participation goals



■ Percent Contracts (>80% complete) meeting D/M/WBE participation goals	80%	85%		
□ Target Percent Contracts (>80% complete) meeting D/M/WBE participation goals	100%	100%	100%	100%

Source: Administrative Services Performance Measures Report, 2nd Qtr 2011

Recommendations

1. Have Internal Audit schedule periodic reviews of BDD to evaluate control and governance processes
2. Contact firms such as Mason Tillman, governmental entities similar to NTTA, and other organizations to determine if comparable benchmark information is available
3. Pursue direct engagement of D/M/WBE legal services firms
4. To discover and define handling of potential cases of supplier diversity non-compliance, fraud, and/or abuse, include the following in the BDD policy and procedures and communicate to all participants
 - NTTA Ethics and Fraud Hotline or other facility to receive confidential reports of issues
 - Handling and escalation protocol for resolving issues

- **Collections**
- **Analytics**
- **Forecasts**
- **Long Range Planning**

The NTTA has actively worked to increase collections effectiveness, but more can be done to reduce revenue leakage

Observations

The NTTA devotes significant resources to minimizing revenue leakage

Proof Points

- Revenue assurance plan is discussed regularly and updated quarterly
- The NTTA is seeking improved enforcement tools and discusses the process with the Board

The NTTA needs stronger collections practices and enforcement tools

- 25% of invoiced ZipCash transactions are unpaid within the first 12 months
- Expanded use of Justice of the Peace Courts does not make economic sense given the current collection rate

The NTTA's margins are being impacted by decreased TollTag penetration

- Net revenues on ZipCash transactions are lower than TollTags due to higher processing costs and customers who slow pay
- ZipCash transactions as a percent of total transactions are rising

Toll Service Agreements (TSAs) will amplify the effect of decreased TollTag penetration

- Current TSAs place collections risk with the NTTA
- TSA profitability forecast assumes key ZipCash operation metrics improve compared to current performance

NTTA is prepared for the implementation of SB 469

- All software necessary for the process changes has been delivered and are in the final testing stage

Recommendations

1. The NTTA should protect its margin by reducing the incremental cost of ZipCash transactions
2. The NTTA should renew its efforts, and invest marketing dollars to target ZipCash customers for conversion to TollTags
3. The NTTA should continue actively brainstorming, testing, and implementing collections process improvements. Consider automating and aggregating citation processing, AR factoring, separating collections from customer service personnel, outbound calls earlier in the collections process, and continue to evaluate use of the JP courts

Key metrics on NTTA's peer group

NTTA is has more leverage than their peer due to newer road structure

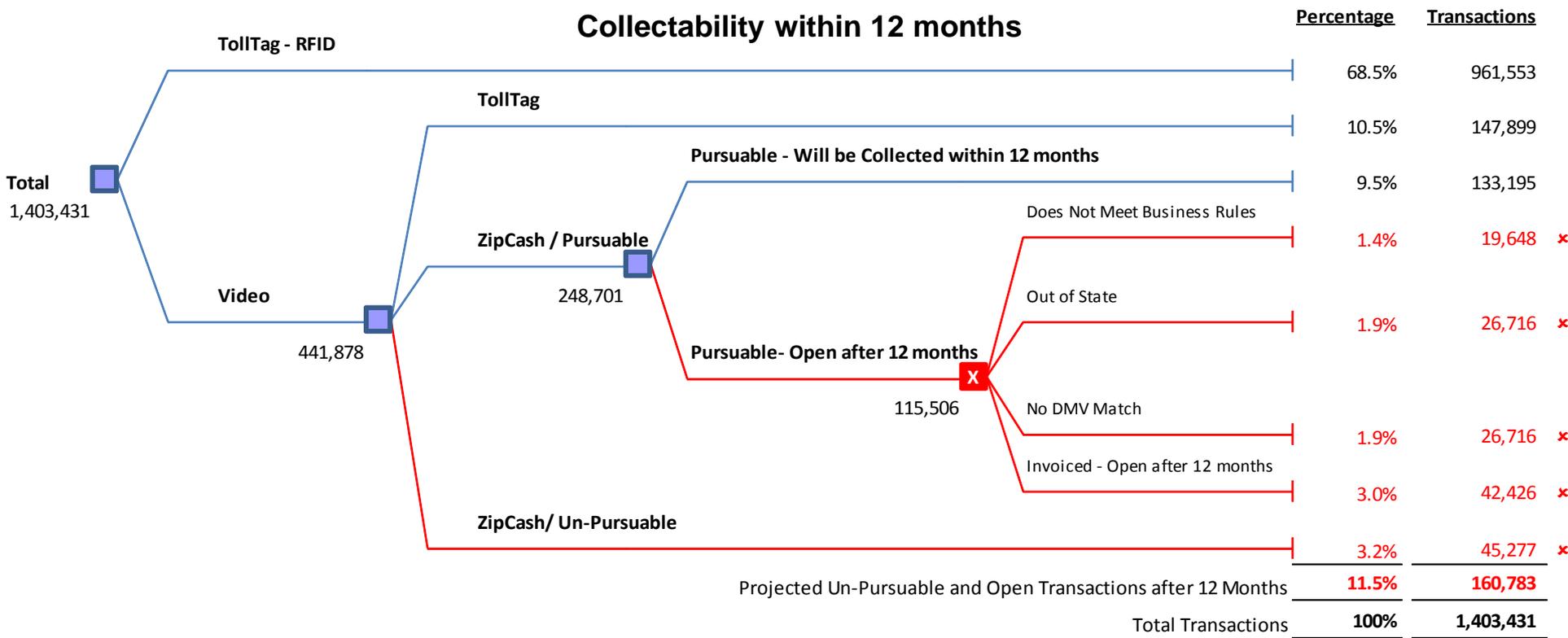
Tollway Authority	Est.	Length (Roadmiles)	Transactions (M) 2010	2010 Revenue per Mile (\$M)	2010 OpEx per Mile (\$M)	2010 Debt per Mile (\$M)	Rev Avail for Debt/ Mile	Leverage	Senior Rating
North Texas Tollway Authority, TX	1953	97	481.9	\$4.0	\$1.3	\$78.1	\$2.7	29.4x	A1
Central Texas Regional Mobility, TX	2003	12	22.0	\$2.2	\$1.5	\$35.3	\$0.7	51.7x	Baa3
Central Texas Turnpike System, TX	2003	65		\$1.1	\$1.0	\$39.2	\$0.1	447.3x	Baa1
Harris (County of), TX	1983	120	371.2	\$3.8	\$1.9	\$23.0	\$1.9	12.0x	A1
E-470 Public Highway Authority, CO	1991	47	11.0	\$2.1	\$0.7	\$30.3	\$1.4	21.8x	Baa3
Orlando-Orange County Expressway Authority, FL	1963	105	288.2	\$2.3	\$0.5	\$28.3	\$1.8	15.7x	A1
Miami-Dade County Expressway Authority, FL	1994	34	117.4	\$3.3	\$0.9	\$28.2	\$2.4	11.8x	A3
New Jersey Turnpike Authority, NJ	1952	325	236.0	\$3.2	\$1.5	\$27.0	\$1.7	16.3x	A3
Illinois State Toll Highway Authority, IL	1958	150	817.1	\$4.5	\$3.9	\$26.8	\$0.5	49.4x	Aa3
Florida (State of) Turnpike System	1957	520	639.4	\$1.2	\$0.4	\$5.8	\$0.7	7.7x	Aa2
Oklahoma Turnpike Authority, OK	1947	605	154.3	\$0.4	\$0.1	\$1.8	\$0.3	7.2x	Aa3

Mean	313.9	\$2.5	\$1.3	\$29.4	\$1.3	61.0x
Median	262.1	\$2.3	\$1.0	\$28.2	\$1.4	16.3x
Min	11.0	\$0.4	\$0.1	\$1.8	\$0.1	7.2x
Max	817.1	\$4.5	\$3.9	\$78.1	\$2.7	447.3x

Source: Public Information

Peer organizations selected based on A&M experience and input from NTTA Board, management, and staff

For accounting purposes, the NTTA reserves for 45% of invoiced ZipCash transactions. Latest trends project only 24% of invoiced ZipCash transactions will not be collected within 12 months, making the reserve sufficiently conservative.



Source: Transaction Status Report January 2011 to June 2011, and historical collection trend

The NTTA continuously attempts to improve the revenue capture rate. Currently the NTTA is implementing:

- Out of state billing program
 - Pilot program has yielded similar results to the in-state billing program, 75% of invoices paid.
 - Program slated for expansion in late 2011
- Toll system software upgrade (Estimated delivery January 2012)
 - Will allow for video analysis of vehicles
 - Will automate interfacing with out of state DMV departments
- Camera and Gantry upgrades (73% complete)
 - Replacing cameras with ones that deliver higher definition images
 - Adding a color camera at the end of lanes to address contrast issues on plates
 - Replacing side image gantries with overhead gantries for improved image quality
- Updated Business Rules
 - Operating cost reductions make it economically feasible to send lower-value invoices to customers
 - The required transactions for billing will be reduced from 5 to 4 in late 2011
- Other
 - DMV dealer plate matching
 - Competing collections firms
 - Dealership TollTag signup program

- NTTA has signed two Toll Services Agreements to date: North Tarrant Express and 635 Managed Lanes
- The key terms of the TSA's are:
 - Base fee of 4.5¢ per transaction that escalates 2.0% every 2 years
 - Variable transaction fee of 3.75% of tolls
 - NTTA bears collection risk on all transactions relayed to the NTTA
 - Tolls are payable to the road developer in two days
 - The NTTA is allowed to charge incremental service fees and admin fees, including any toll premium for ZipCash customers (premium has to be the same as the main NTTA system)
 - According to the NTTA's financial model, the TSA's were projected to be profitable
- In March 2010, after the Toll Service Agreements were signed, an independent advisor was brought in to analyze the TSA financial model
 - The report identified some assumptions made by the NTTA that appear to be aggressive based on current performance, and may cause the TSA's to be unprofitable, such as percent of tolls that are ZipCash, ZipCash toll premium, and percent of transactions with DMV or are from out of state
 - Operations is aware of these risks and is working to address them

ZipCash customers generate lower operating margins than TollTag customers. The NTTA is currently updating this study and it is expected to be available before the end of the year

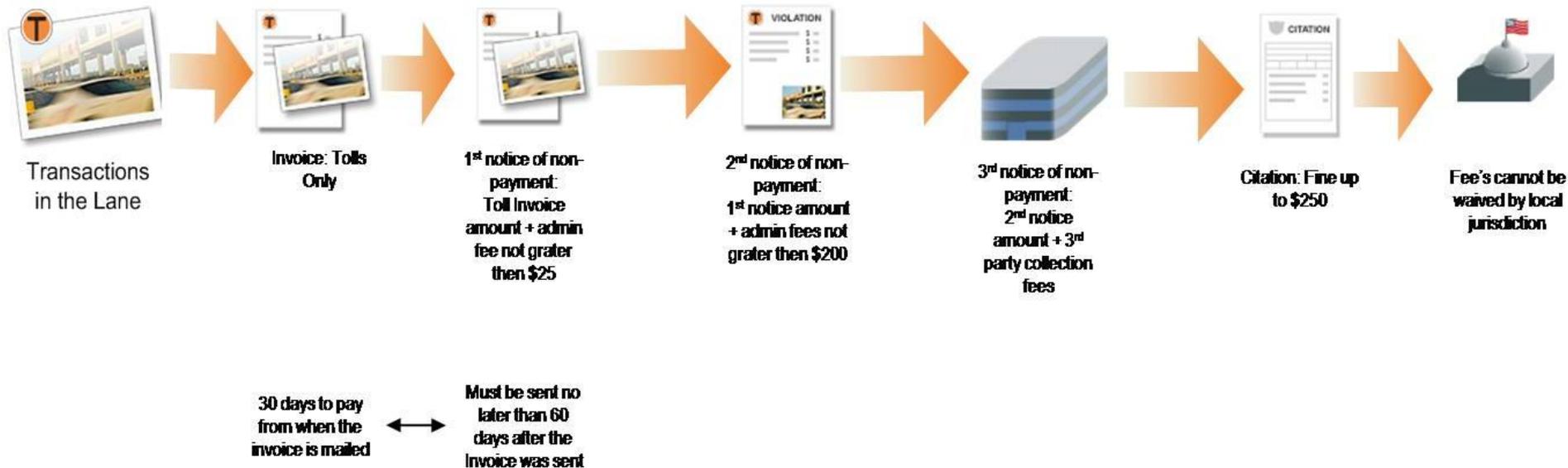
By going all ETC, ZipCash transactions are growing in absolute numbers and as a percent of total toll transactions. This is only expected to increase with Toll Service Agreement transactions

ZipCash Transaction History	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Transactions	41.9	42.8	41.0	43.3	41.2	42.7	40.3	34.8	45.1	44.1	44.7	45.1
ZipCash Transactions	7.4	7.5	7.1	7.5	7.2	8.4	8.2	7.3	9.6	9.7	10.3	11.3
As a % of Total	17.7%	17.6%	17.4%	17.4%	17.5%	19.7%	20.3%	21.0%	21.3%	22.0%	23.1%	25.0%

Source: Transaction Status Report

Note: ZipCash transactions exclude video tolls (TollTag customer transactions captured via video instead of TollTag)

The main elements of SB 469 are timing between invoices, and the use of admin fees versus fines. The schedule as laid out by the law, is shown below



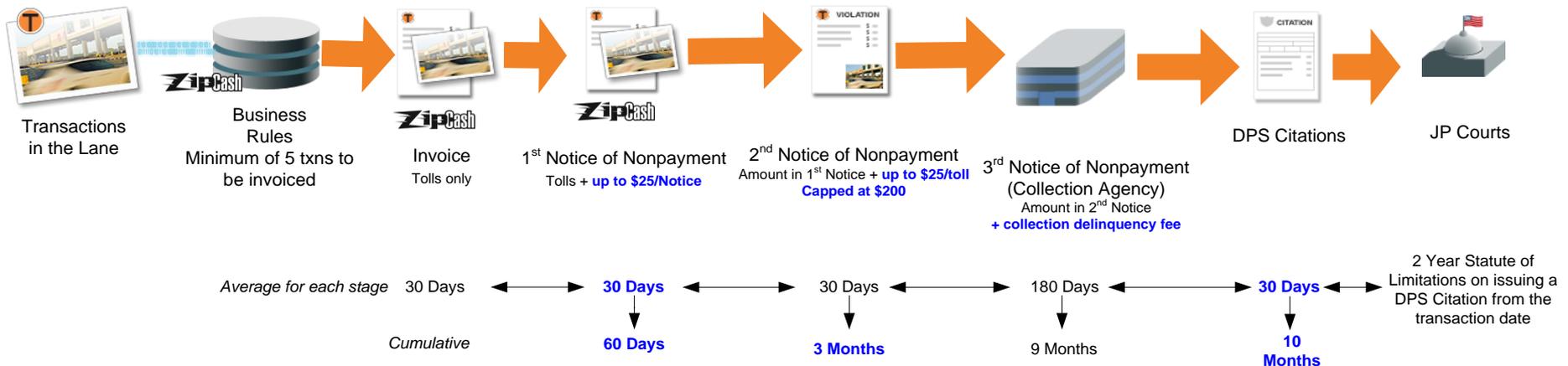
Admin Fee Policy

The NTTA has plans in place to be compliant with SB 469. Invoice timing and admin fees charged will be adjusted

Existing Flow



SB 469



Economics of Admin Fees Legislation

- Currently, collections costs exceed admin fee revenue
- Beginning September 1, fees charged will offset the cost of collections in each phase
- Key assumptions
 - A reduction in the fee amounts waived in each stage of collection
 - No change in customer behavior including Customer Service Center contacts (i.e. collections costs don't change)
- Each year staff will evaluate collections costs and volumes and propose admin fee adjustments to ensure fees and costs are roughly equal

Current Process		Proposed SB 469 Process	
Late Notice		1st Notice of Nonpayment	
Admin Fee (Invoice)	\$2.50	Admin Fee (Invoice)	\$8.00
Revenue	\$912,387	Revenue	\$3,592,979
Costs	\$3,467,614	Costs	\$3,467,614
Margin	(\$2,555,227)	Margin	\$125,365
Violation, Collections and Citation		2nd Notice of Nonpayment through Citation	
Admin Fee (Toll)	\$8.25 - \$25	Admin Fee (Toll)	\$6.60
Revenue	\$16,222,827	Revenue	\$14,805,669
Costs	\$14,700,415	Costs	\$14,700,415
Margin	\$1,522,412	Margin	\$105,254
Overall Margin	(\$1,032,815)	Overall Margin	\$230,619

Leverage analytical tools and resources as an organization

Observations

Finance department not currently staffed to handle the analytic burden of the entire organization

Management lacks coordinated analysis between departments on key decisions

Proof Points

- Analyst position open within the Finance department
- Resources spread throughout the organization reporting to applicable department heads (Operations, IT, Project Delivery)
- Complaints about the ease of access to financial analysis from Finance department
- Analyses for major decisions do not enjoy consensus across departments
- Some presentations by staff to the Board have not been persuasive due to missing financial analysis
- Marketing department lacks return on investment support from finance

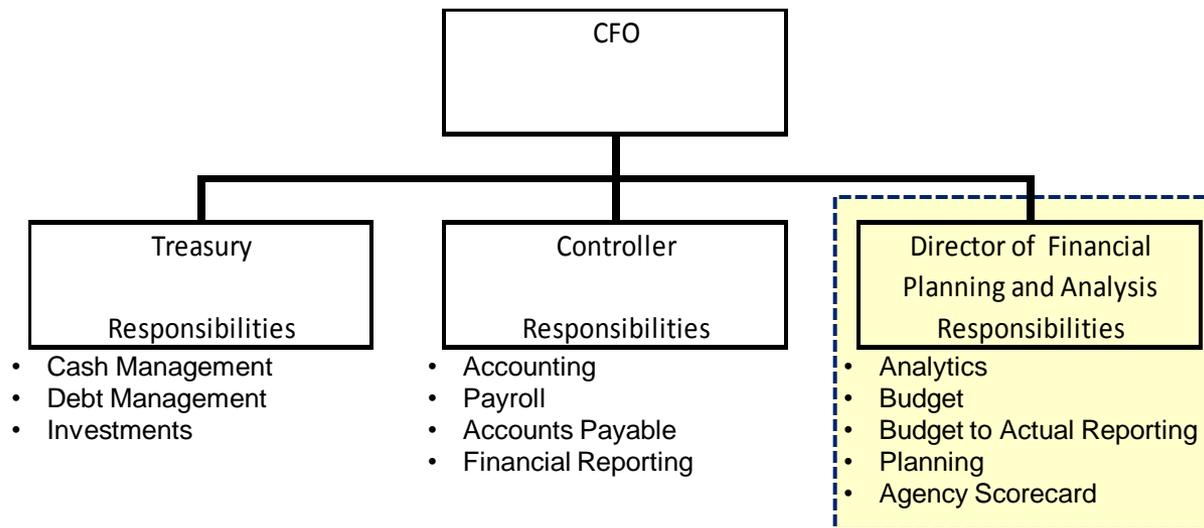
Recommendations

1. Create a Financial Planning and Analysis department within Finance that combines the resources from existing departments, serves the entire organization, and leverages all of the systems tools (e.g. RITE, PeopleSoft, Hyperion) the organization has at its disposal
2. Executive Director should ensure staff proposals to the Board include a business case and sufficient analytical rigor
3. Hire a capable upper level manager to report to the CFO, serve the operating departments, coordinate the department's efforts, and deliver business case recommendations to the Board
4. Hire resources to augment the existing analytics capabilities

Financial rigor for initiatives under consideration and reporting is inconsistent

- Examples include presentation on marketing initiatives (return on investment), All-ETC conversion, Toll Services Agreement assumptions (analysis done by a third party after the fact), and Project Delivery budget to actuals variance reporting is manual
- Poor financial analysis may lead to poor decision-making or lack of confidence of the Board in staff decisions
- Most previous decisions aren't tracked for actuals vs. plan in order to improve forecasting in the future

Recommendation: Establish a centralized Financial Planning and Analytics department that would perform the following key functions: Analytics, Budget, Budget to Actual Reporting, Planning, and Agency Scorecard



Department would report to the CFO, but its primary function would be to engage and support the other departments. The fact that the main role of this group would be to service the other departments makes it important for it to be separated from both the Accounting and Treasury functions.

Forecasts have proven to be reasonable

Observations

T&R forecast methodology is sound and the forecasts are generally accurate

ZipCash collections forecast is conservative

Cash Flow model is not a useful operational tool for the NTTA

NTTA's Cash Flow can be estimated by using public information

Proof Points

- Modest cumulative 5-year variance to revenue budgets.
- Despite not predicting the 2008 recession, SRT 121 is within 10% of forecasted transactions
- While 75% of invoiced ZipCash transactions are paid within the first 12 months, the revenue forecast for bonding purposes assumes only 55% are paid
- Trust Agreement dictates all cash management
- 5-year forecast for the major fund balances are available online and the reserve accounts that remain largely unchanged are available in the Comprehensive Annual Financial Report

Recommendations

1. Continue to monitor the segment data and actively coordinate with the T&R consultant on operational assumptions
2. Continue to be conservative with cost budgets to avoid the need for amendments
3. Develop the capabilities to communicate cash flow Board members
4. Provide in-depth revenue, capital and operating expense forecast details to Board

Section 704 of the Trust Agreement requires the NTTA to employ a Traffic Engineer until retirement of the bonds

Traffic

- Population and economic assumptions are based on the official forecast from the Council of Governments
- The economist, employed by the Traffic Engineer, adjusts the economic forecast based on his broad economic outlook
- The population and economic growth attributable to a tollway is added to the projection
- Future roads are added to the forecast based on the RTC's regional mobility plan
- With the exception of road specifications, population and economic assumptions are made independently of NTTA input

Revenue

- Revenue recovery assumptions are based on NTTA input and agreed upon in advance of the study. Major assumptions include:
 - Mix of TollTag versus ZipCash customers
 - The percentage of ZipCash customers who can be found in the DMV database
 - Billing business rules
 - Invoiced ZipCash transactions that are eventually collected
 - Toll rates and toll differentials
- The traffic engineer uses a model to simulate households, road selection and the number of road trips they produce based on household size, income, vehicle ownership, and locations.

T&R forecasts have been fairly accurate for the prior 5 years

Total Revenue (MM)	2006	2007	2008	2009	2010	Total
Actual	\$191.4	\$202.7	\$240.8	\$290.4	\$366.6	\$1,291.9
Budget	197.1	204.5	262.3	265.1	377.1	1,306.1
Variance	(5.7)	(1.8)	(21.5)	25.3	(10.5)	(14.2)
Variance % of Budget	-2.9%	-0.9%	-8.2%	9.5%	-2.8%	-1.1%

Source: 2010 Comprehensive Annual Financial Report

Actual number of transactions for SRT have come in higher than forecasts used to make the investment decision (sketch grade study)...

SRT TRANSACTION COMPARISONS (ACTUAL vs. FORECASTS)							
Year	WSA Transaction Forecasts		Actual Transactions	Difference		% Difference	
	May 2007*	October 2007**		May 2007*	October 2007**	May 2007*	October 2007**
2008	18,653,300	19,332,600	19,193,500	540,200	-139,100	2.9%	-0.7%
2009	52,334,000	74,566,900	69,475,400	17,141,400	-5,091,500	32.8%	-6.8%
2010	95,762,000	96,781,000	89,268,400	-6,493,600	-7,512,600	-6.8%	-7.8%
Total	166,749,300	190,680,500	177,937,300	11,188,000	-12,743,200	6.7%	-6.7%

...but, actual transactions are lower than what was forecasted at the point of bond issuance (Investment Grade Study)

*Traffic and Revenue Analysis in support of the SH 121 Denton and Collin County Proposal, May 2007

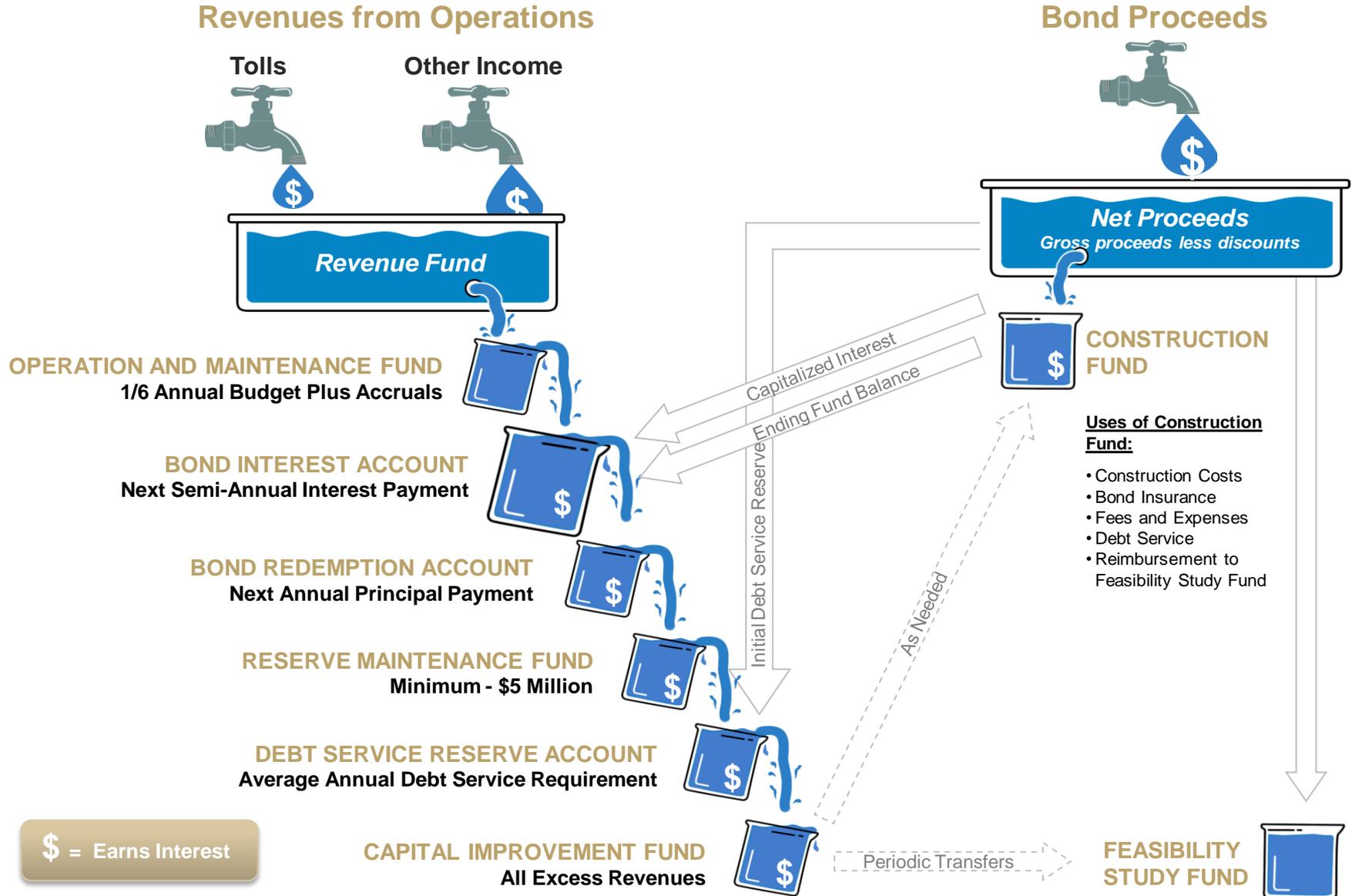
**Dallas North Tollway System and SH 121 Tollway: Investment Grade Traffic and Toll Revenue Study, October 2007

Cost budgets serve as a cap per section 505 of the Trust Agreement. The NTTA will always come in under the cap, or will need to amend the budget

Net Operating Expenses (MM)	2006	2007	2008	2009	2010	Total
Actual	\$61.4	\$75.6	\$80.7	\$90.9	\$95.7	\$404.3
Budget	65.2	82.6	90.9	93.1	104.0	435.8
Variance	(3.8)	(7.0)	(10.2)	(2.2)	(8.3)	(31.5)
As %	-5.8%	-8.5%	-11.2%	-2.4%	-8.0%	-7.2%

The NTTA won an award from The Government Finance Officers Association of the United States and Canada for its budget in 2010. The award recognized the NTTA's budget as an effective communication tool

Overview of Trust Agreement Flow of Funds



\$ = Earns Interest

NTTA does not publish their cash flow but it can be calculated from publicly available operating and capital budgets

Implied Cash Flow from 5 yr Capital Plan	2012	2013	2014	2015	2016	Total
<i>(Millions)</i>						
Revenue	\$ 485.9	\$ 528.0	\$ 565.5	\$ 600.1	\$ 639.4	\$ 2,818.9
Operating Expenditures	(110.3)	(111.9)	(114.2)	(117.1)	(120.0)	(573.3)
Debt Service	(287.2)	(335.4)	(356.0)	(375.0)	(396.3)	(1,750.0)
Major Maintenance	(27.1)	(28.2)	(24.4)	(24.1)	(25.3)	(129.1)
Capital Improvement Fund	(127.5)	(66.0)	(61.2)	(60.0)	(43.8)	(358.5)
Construction	(42.3)	(18.4)	(63.8)	(97.7)	(48.3)	(270.5)
Borrowings	-	-	53.7	79.2	-	133.0
Total Cash Flow	(\$ 108.4)	(\$ 31.9)	(\$.4)	\$ 5.5	\$ 5.7	(\$ 129.5)
Beginning Cash Balance	\$ 334.9	\$ 226.5	\$ 194.6	\$ 194.2	\$ 199.7	\$ 334.9
Cash Flow	(108.4)	(31.9)	(.4)	5.5	5.7	(129.5)
Ending Cash Balance	\$ 226.5	\$ 194.6	\$ 194.2	\$ 199.7	\$ 205.4	\$ 205.4
<u>Reserve Account Estimates (Not in Capital Plan)</u>						
Revenue Fund*	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0
Deferred TollTag Revenue*	41.3	41.3	41.3	41.3	41.3	41.3
Interest & Reserve Funds*	600.6	600.6	600.6	600.6	600.6	600.6
Estimated Ending Cash and Investments	\$ 903.4	\$ 871.5	\$ 871.1	\$ 876.6	\$ 882.3	\$ 882.3

Note: Amounts in reserve accounts are not available for use by the NTTA

Source: 2012-2016 Capital Plan, Reserve Account Estimates based on 2010 Comprehensive Annual Financial Report

Despite limited default risk, future projects will require new funding approaches and more active long-range planning with partners

Observations

Capital Plan allows for no additional debt service

The “Pinch Point” was created by the 2008 series E notes, and has been well communicated to the Board

State level political risks have been a catalyst for other tolling authorities to be downgraded by the rating agencies

Long term plan is fundamentally conservative

Proof Points

- Projected net operating revenue remains tight to the targeted coverage ratios throughout the 2012-2016 capital plan
- The “Pinch Point” was well communicated in the May 2008 Board materials (before financial markets collapsed) and in November 2010 Board materials
- Rating agencies downgraded the Triborough Bridge and Tunnel Authority in New York (09/2011) and the Massachusetts Turnpike Authority (10/08) after political movement
- Assumes the only source of funds is the current system of roads
- Current plan does not yet have input from the Board or outside constituents

Recommendations

1. Have T&R and engineering consultant update financial and T&R projections road feasibility analysis based on anticipated development start dates
2. In order to build roads faster, explore leveraging the system resources with outside parties similar to the Special Projects System for CTP and SH161
3. Include long range planning discussions with key staff and Board as part of strategic planning exercise, and share plans with regional transportation leaders so they can plan accordingly
4. Stay proactive in legislative matters impacting NTTA’s financial outlook

The “Pinch Point”

When the 2008 series bonds were issued for the construction of the SRT and refunding of previous bonds, it was projected that the First Tier Debt Service ratio in 2013 would be 1.51x. The debt coverage ratio of 1.5x is not mandated by the Trust Agreement, but NTTA committed to the ratings agencies to support a favorable debt rating and lower interest costs

Year	2008 (E) OS	Capital Plan
2012	1.70x	1.51x
2013	1.51x	1.50x
2014	1.54x	1.51x
2015	1.64x	1.52x
2016	1.67x	1.53x

Further, the capital plan shows no additional debt capacity in 2013 and very little through at least 2016

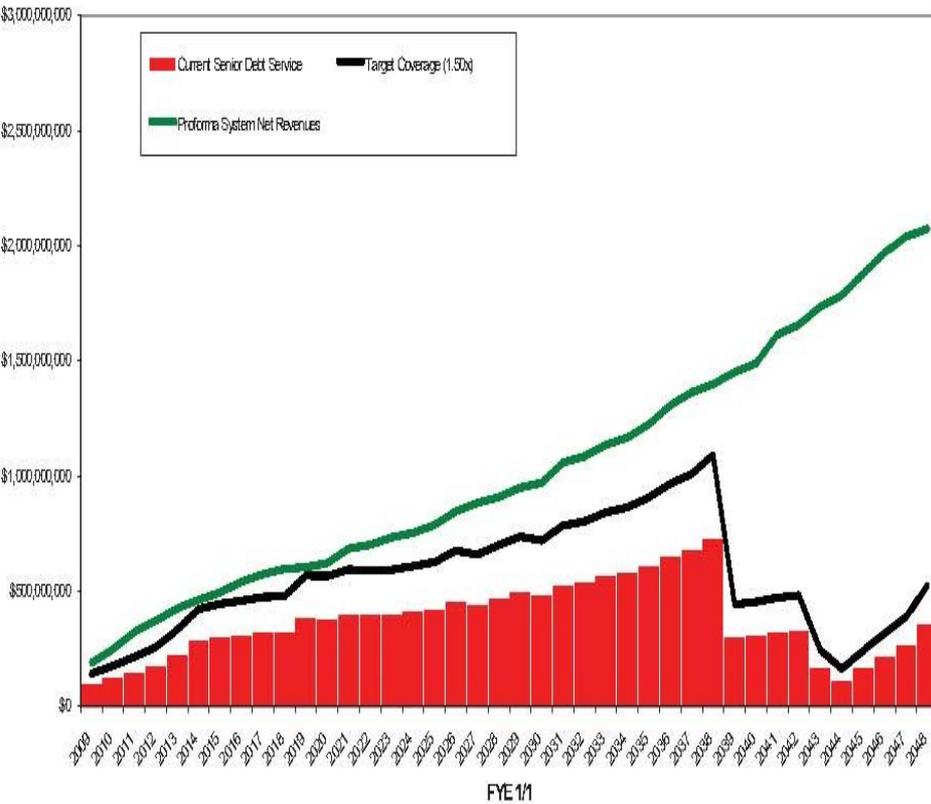
Debt Coverage Cushion 2012-2016 Capital Plan		2011	2012	2013	2014	2015	2016
Cash Flow Available for Debt Service (CFADS)		\$ 307.7	\$ 375.8	\$ 415.9	\$ 450.9	\$ 482.5	\$ 519.0
First Tier Debt Service Coverage	1.35x	62.9	39.0	41.4	48.7	54.6	62.3
First + Second Tier Debt Service Coverage	1.20x	65.7	31.1	13.4	23.7	32.5	43.4
All Debt Service Coverage	1.00x	74.0	56.9	49.0	63.5	76.1	91.3
Low Water Mark as % of CFADS		\$ 62.9 20.4%	\$ 31.1 8.3%	\$ 13.4 3.2%	\$ 23.7 5.3%	\$ 32.5 6.7%	\$ 43.4 8.4%
First Tier Debt Service Coverage (Rating Agency)	1.50x	\$ 35.7	\$ 1.6	-\$.2	\$ 4.0	\$ 7.1	\$ 11.6

The “Pinch Point” Communications

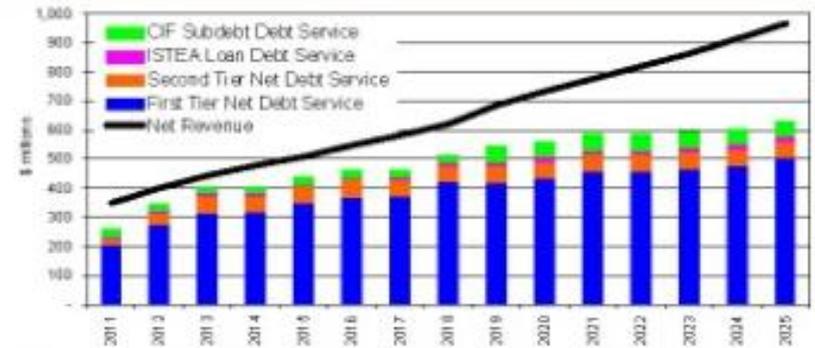
The “Pinch Point” was well communicated in the May 2008 Board materials (before financial markets collapsed)...

... and in the November 2010 Board materials (after all the bond anticipation notes were paid off)

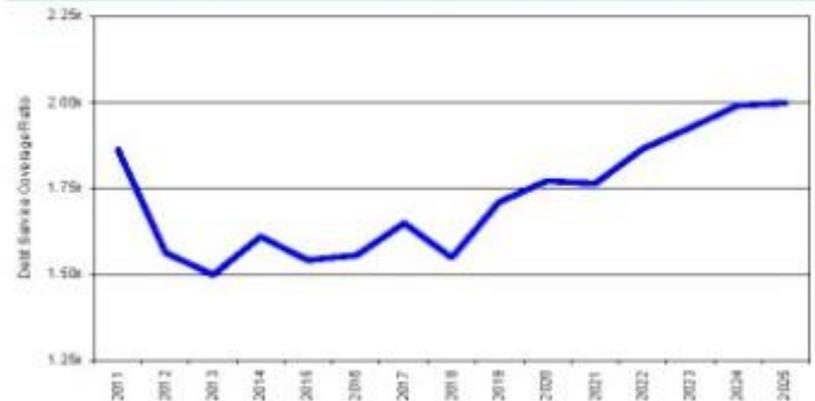
Existing System with SH 121



Projected Revenue vs. NTTA System Debt Service



Projected 1st Tier Debt Service Coverage Ratio



Establishing and refreshing a long-range plan for the agency is critical to setting the appropriate priorities and supporting organization structure

The NTTA's long-range plan is a 40 year financial model

- Utilizes the T&R consultant's current system projections (DNT, PGBT, SRT)
- NTTA uses RTC projections for probable future toll roads
- The plan layers on pre-sketch grade (current) traffic projections for all projects in the RTC projections
- Projects are added in future years based on when the current system can financially support them
- None of the projects currently being investigated are independently feasible (i.e. operating costs and debt service would need to be subsidized by other roads in the system)
- The ED has not shared the plan broadly with the organization due to sensitivity of road selection and timing

Example Project Forecast Schedule

Project	Last T&R Update	Begin Design / Planning
Project 1	04/2010	2017
Project 2	01/2011	2018
Project 3	02/2011	2021
Project 4	02/2011	2024
Project 5	02/2011	2025
Project 6	02/2011	2026
Project 7	02/2011	2029
Project 8	02/2011	2032
Project 9	09/2010	2034
Project 10	05/2010	2035

Tolling authorities that do not effectively engage their respective regulators / legislators could face borrowing risk

Examples of Agency Downgrades

BusinessWire
September 08, 2011 04:05 PM Eastern Daylight Time
Fitch Downgrades Triborough Bridge & Tunnel Authority (NY) General & Sub Revs; Outlook to Stable

The Boston Globe
From the Metro staff at The Boston Globe
Agency downgrades turnpike's bond rating, raising prospect of toll increases
October 2, 2008 07:01 PM Email Comments (0) Text size
By Noah Bierman, Globe Staff

Another day brought another piece of dismal financial news for the Massachusetts Turnpike Authority. One of the authority's two rating agencies downgraded its credit rating Thursday, putting its bonds just a notch above junk status and increasing the likelihood that a significant toll increase is coming very soon.

"I think we all recognize that we need to do that promptly," said Michael Angelini, part of a majority of board members who say a toll increase is needed. "We're going to be meeting again in October and I'm sure that's the first item on the agenda."

The news that Moody's Investor Service downgraded the authority came on the same day that Governor Deval Patrick announced a still-undefined plan to abolish the turnpike authority and assign its responsibilities and debt to other state agencies. But regardless of who controls the turnpike, the debt will remain on the books.

Moody's decision increases the threat that the agency will be forced to pay Lehman Brothers \$37 million as part of a complex financial deal entered into earlier this decade. Lehman, or whoever assumes the assets of the bankrupt company, can demand the money if the authority's other rating agency, Fitch's, follows Moody's with its own downgrade, something it has threatened to do.

DENVER BUSINESS JOURNAL
Fitch Ratings downgrades toll authority

Northwest Parkway Public use bonds.
a downgrade from BBB-. New

tion between Interstate 25 onfield, Weld County and the the parkway.
tion in bonds issued this year and this year.
debt restructuring strategy and he authority hasn't restructured same as in 2001.
e bonds was made because toll debt service. Fitch said it dthority would run into problems

ngrades the and Tunnel Authority
AA-' from 'AA'; s to 'A+' from 'AA'.
bility and declining revised to Stable.
hich provides critical a and the importance .
storically strong
gram s bondholder

Fitch Rating Criteria: Jurisdiction and Other Legal

Stronger Attributes

Clear concession agreement and statutory authority; legal environment that upholds contractual obligations; well thought out public policy choices and relative political stability; flexibility in concession documents to account for public policy changes/expansion/competing facilities.

Midrange Attributes

Concession agreement unclear in some areas; legal environment that upholds contractual obligations; limited volatility in public policy; some recognition that the agreement may need to accommodate public policy changes, roadway expansion, and competing facilities.

Weaker Attributes

Vague concession agreement or statutory authority; untested legal regime and/or judicial rulings that do not support contractual obligations; demonstrated volatility in public policy; no provisions for handling public policy changes, expansion or competing facilities.

- **Next 6 months**
- **Next 6-12 months**
- **Accountability**

Board and Executive Staff to review findings and recommendations

Major recommended initiatives include:

- **In next 6 months:**

- Develop and institute Board-Staff governance model and expected working relationship
- Develop and implement more transparent Board Conflicts of Interest and Ethics policies
- Conduct procurement of major consultants with proposed improvements using a staggered approach
- Finalize recommended organization structure
- Have General Counsel deliver an evaluation of new Legal Services protocols and propose any suggested changes
- Develop job description for Deputy Executive Director and begin national search
- Institute enhanced oversight mechanisms and accountability for major consultants
- Re-establish Board committees for Finance & Audit, Special Projects (SPOC), and Administration

- **In next 6-12 months:**

- Develop an updated strategic and long-range plan and actively manage to it
- Conduct comprehensive review of collections organization, processes, systems, and enforcement options by collections specialist, and institute identified improvements
- Establish improved performance management process of Executive Director by the Board
- Re-institute incentive pay structure
- Have any new Board member appointments factor in additional experience, demographic and functional backgrounds needed
- Fill remaining open positions in new organizational structure, including analytics function in Finance

- **Every 3 months:**

- Provide report to County Judges and public on progress to date on recommendations in this review